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Economic Issues

Health, Environmental Statistics Cited

964F0772A Moscow PRAVDA in Russian 10 Jan 96 p 2

[Article by Professor N. Rodzevich: "Atlas of a Thousand Troubles: Demographers Give Warning"]

[FBIS Translated Text] A unique atlas was published recently— "The Environment and the Health of Russia's Population"—compiled jointly by Russian and U.S. scientists. What are the most important conclusions the atlas' authors arrived at? The depopulation of the country is obvious: The birth rate in Russia is declining—today it is the lowest in the entire history of the modern era, and the mortality rate is swiftly going up.

Population is on the decline in other countries, too, but unlike there, in Russia this process is caused not only by the declining birth rate but also the enormous rise in the mortality rate of people of working age. For the first time over the past few decades average male life expectancy has dropped below 60 years. In 1993 the population's mortality rate rose by 40.4 percent compared to 1987. In 1993 alone, Russia lost 2.9 million man-years of labor activity due to premature mortality.

What are the main causes of the increasing loss of Russia's labor potential? At the top of the list is death from injury and poisoning—47.1 percent, followed by cardiovascular diseases—10.5 percent, intra-uterine development diseases—9.1 percent, tumors (cancer)—7.2 percent, and diseases of the respiratory organs—0.1 percent....

Let us clarify that cause of death under "injury" in medical statistics includes murder and suicide, under "poisoning"— accidental alcohol poisoning and death from chronic alcoholism. The loss of labor potential from these types of death has been growing fast since 1989 in direct proportion with the deepening socioeconomic crisis in the country. In 1992, death from suicide among males exceeded the average rate for Europe by a factor of 2.7, among females—by a factor of 1.4.

One in 40 Russian inhabitants needs psychiatric help. There are more than 3.6 million mentally ill persons in the country today.

The worsening economic, social, and criminal situation in the country is accompanied by greater stress. Which, in turn, has lead to the fast-rising incidence of cardiovascular diseases and especially death from ischemia. In 1992 the loss of Russian population labor potential from these causes increased 1.2-fold, in 1993—1.5-fold. According to medical statistics, one in three deaths from various diseases was a person of working age.

Poor nutrition and declining amounts of protein and vitamins have lead to a growth of dangerous diseases precipitated by social conditions, such as tuberculosis. Since 1991 the incidence of tuberculosis has increased by 26 percent, and among children—by 40 percent!

The incidence of venereal diseases also has increased at an unheard-of rate. Over 1993 alone the number of syphilis patients increased 1.5-fold compared to the preceding year. Over 1994-1995 the incidence of syphilis among teenagers increased by 100 percent, young men—by 175 percent, and adult men and women—by 186.7 and 162.8 percent, respectively.

Compared to 1992, the incidence of measles among children increased by 302 percent, diphtheria—by 296 percent, and scabies— by 131 percent. In 1994 the incidence of diphtheria increased by 356 percent compared to 1993. Deaths caused by the unavailability of medicines accounted for 10.5 percent of labor potential loss, and deaths caused by shortcomings in emergency services—for 18.6 percent....

The current state of health of the population of Russia is qualified as an emergency: The rising mortality rate is accompanied by declining life expectancy. Most of the loss in Russia's population and its labor potential is due to purely social causes, the authors of the atlas conclude.

Gazprom, Government Relationship Examined

964E03[illegible]A Moscow OGONEK in Russian Dec 95 No 49, pp 22-23

[Article by Yuriy Rytov: "We in Russia Have GAZ: Gazprom Is Its Master, But Who Is the Master at Gazprom?"]

[FBIS Translated Text] Evil tongues claim: Viktor Chernomyrdin is the master at Gazprom and the sector is making use of his special patronage and concern. They say that it is not by chance that the position of president of the Gazprom RAO [Russian Joint-Stock Company] remains vacant, and the luxurious office in the corporation's new building is empty. It is not by chance that at a meeting of the State Duma the deputies asked Chernomyrdin three times how many shares he had in Gazprom. Viktor Stepanovich twice said nothing, but the third time he answered, in an irritated manner: well, not a single one!

This is really the case: Chernomyrdin does not have a single share in Gazprom — you can easily make certain of this by taking a look in the register of shareholders.

All the same, though, it is he who continues to be the true master of the corporation, by virtue of the position that he now occupies as chairman of the RF government.

Look at the way the Gazprom shares are distributed. Forty percent are assigned to state ownership and 15 percent were sold to Gazprom workers. The rest are distributed among small holders. It may be that the controlling block belongs to the state. It also, in the person of the higher officials, has command of the corporation.

It is quite in conformance with principle that the two first deputy ministers of the RF (Ministry of Finance and Ministry of Fuel and Energy) and the two "plain" deputies (Ministry of Economics and the Federal Commission on Securities and the Stock Market) are on the Gazprom council of directors.

The conclusion is obvious: under the conditions of the rising market economy, Gazprom remains a powerful state corporation, and the state (that is to say, the government) determines all its actions. A simple truth, it would seem, but the key to solving the riddle of the many surprising phenomena connected with Gazprom lies in understanding it.

A locomotive of inflation or an engine of progress? The paradox: it is both, at the same time.

In nine months of this year, Russia's export receipts were $57,802.5 million. This includes the export of natural gas, for which we received $9,536.6 million.

The words, "we are selling Russia" are in this case inappropriate. Almost all the currency receipts go into the budget, and the social sphere is supported by it. In addition, the purchasers of our export products do not know what nonpayment problems are: they settle up promptly.

Well, what about the future? Here too, things are quite favorable with respect to natural gas, in contrast to other energy carriers. There are enough reserves of it in Russia for several thousand years, even allowing for domestic and foreign needs. It is suggested that by the year 2010, Russia will be able to emerge at the level of a yearly gas extraction of 980 billion cubic meters. Europe's needs, according to the estimates of experts, will by that time have approximately doubled, and will constitute 600 billion "cubics." This amount is no problem for our country. After all, the prospected reserves of the Yamal Peninsula alone exceed 10 trillion cubics.

Let us return to today, however. It is by no means so serene for the Gazprom RAO as it appears at first glance. In nine months of this year, Russia obtained 416 billion cubic meters of natural gas. This is 35 percent of the world production level! Its extraction, however, decreased by 2.5 percent as compared with the same period last year. Not because the gas extractors started doing poor work. It is all very simple: within the country, there turned out to be less demand for gas because of the general slump in production (3 percent during this period).

There is another misfortune here, though. When I wrote: foreign suppliers [sic] pay promptly, I naturally did not include among them our close neighbors, Ukraine and Belarus. Their indebtedness for supplies of natural gas from Russia exceeds several tens of trillions of rubles. It would seem that there is a simple conclusion: if they do not pay —just go ahead and turn the valve, cut off the gas! As we are already convinced, though, Gazprom cannot make this type of decision independently: everything is determined at the White House (the Moscow one, of course).

Let us turn now to the most painful subject: Gazprom and inflation. If you take the end of 1991 as the reference point, it is easy to be convinced: the prices for natural gas for industrial use have risen by a factor of approximately 5,000 in the past period. Retail prices for consumer goods have risen by exactly the same factor. Which comes first — the chicken or the egg?

Gazprom's masters have tried to maneuver between the frying pan and the fire. On the one hand, in order to keep the leading sector in the country afloat, they have raised prices for gas by stages, thus stimulating ever new spirals of inflation. On the other hand, they held back prices when inflation, as applied to this specific time segment, went beyond all reasonable limits.

The latest example of this is the famous RF government decree of 13 October 1995, "On State Regulation of Prices (Rates) for Products (Services) of Natural Monopolies." In addition to Gazprom, the directive ban also relates to oil-extraction workers, as well as to the cost of freight transport.

Extreme measures? Yes. It is clear why the government resorted to them. In order to deflect the wave of inflation that rolls over the country every autumn. In order to prove: the situation is under control. In order to convince the Russians (along with the International Monetary Fund): the rates of inflation entered in the budget for the next year — 1.9 percent — are completely realistic.

The moratorium on the prices of natural monopolies runs out on 31 December (this was the precise period indicated in the government decree). What will happen after that?

We have already sorted out the federal budget. The International Monetary Fund as well. There remains only a small trifle — to sort out Gazprom and other natural monopolies. The words of Rem Vyakhirev, to the effect that, if the concern is nationalized, his workers will sell their shares and we will have to deal with some Mr Kol, can hardly be taken seriously. Indeed, it is doubtful that anyone has been planning to nationalize Gazprom so far — neither the tsarist-fathers nor the communists. The question is a different one: is it natural, under market relations, for powerful monopolies to exist, even though they are natural ones? Does the sector lend itself to privatization in general?

It is easy to arrive at an answer, as long as we do not mean, by privatization, breaking up the sector — a unified system of gas-extracting plants and gas pipelines — into little pieces with their own little masters. Just why not, let us say, hold a repeat emission of shares? After all, in the estimation of Rem Vyakhirev himself, the real price of one share is far from 10 rubles, it is $25-35. Just imagine this simple little picture: another 23,673,512,900 shares of Gazprom come on the securities market — except that they are distributed, not according to the socialist "closed subscription" and very cheaply, but on a competitive basis! It would seem that, if there were a budget deficit and it did not get to zero, it would be decreased several-fold.

True, new masters might then appear at Gazprom, and immediately occupy that same Gazprom presidential office. But what do the Russian citizens care about this: provided that they are well managed and that their interests are not sacrificed in the name of immediate political business conditions.

Another question arises: what will happen to the prices for gas then? Precisely nothing. For the time being, only the gas-extracting plants, the boreholes, the gas pipelines and other equipment belong to Gazprom. The actual underground resources and the natural riches stored in them, sorry, for the time being belong to all of us. Let the state regulate the prices, but only within the framework of a market economy — since we have already taken on this job.

[Box, p 23]

Board of Directors of Gazprom RAO

Vyakhirev, Rem Ivanovich (chairman of the board)

Vavilov, Andrey Petrovich, RF first deputy minister of Finance

Vasilyev, Dmitriy Valeryevich, deputy chairman of the Federal Commission on Securities and the Stock Market for the RF Government

Yevsyukov, Vladimir Sergeyevich, RF deputy minister of Economics

Kostyunin, Vladimir Nikolayevich, RF first deputy minister of Fuel and Energy.

In addition, several other people, representing gas-extracting proper, are included as part of the board of directors.

[Box, p 23]

Share Distribution of the Gazprom RAO

Charter capital — R236.7 billion

Issued — 23,673,512,900 shares with a nominal value of R10 each.

Fifteen percent of the shares, or 3,551,026,935 pieces, were sold according to the closed subscription procedure to members of the work collectives of the RF gas supply. The number of share subscribers —288,000 people.

Thirty-three percent of the shares, or 7,812,259,257 pieces, at the same face value — R10 — were sold for privatization checks at closed check auctions. They were purchased by 747,000 people.

Some 1.1 percent — 260,408,641 shares — transferred to the charter capital of the Rosgazifikatsiya AO in accordance with the procedure determined by the Russian Federal Property Fund.

Ten percent, or 2,367,351,290 shares, were purchased at face value by that same Gazprom RAO for subsequent distribution on the securities market, with the receipts directed toward the development of the gas condensate deposits of the Yamal Peninsula and other promising deposits.

Forty percent — 9,469,405,160 shares — were assigned to the ownership of the Russian Federation.

[Box, p 23]

By the Way

Gazprom includes 39 subsidiary enterprises, including 8 gas-extracting and 2 specialized drilling sites, and 14 transport enterprises. In addition, there are 25 subsidiary enterprises, over 50 percent of the charter capital in which belongs to Gazprom.

The Gazprom RAO has at its disposal a network of gas pipelines with a total extent of 140,800 km.

In 1994, the receipts from the sale of products were R38.4 trillion. The balance sheet profit was R5.4 trillion. The net profit (after paying taxes) was R3.4 trillion.

According to the results of the same year, the dividends were determined to be 200 percent per share....

[Box, p 23]

Straight Talk

Rem Vyakhirev, chairman of the Board of Directors of the Gazprom RAO

If Gazprom wants to nationalize, we will sell the shares there and then, and you will have to deal, not with the tsar-father or the communists, but with Mr Kol or someone else.

Chernomyrdin and I plowed together — one on the right side and the other on the left side of the river. We worked and will continue to work together. It is useless to make us have a falling out. Chernomyrdin has not one single Gazprom share — anyone can verify this from the register of stockholders. We would never have helped each other with dirty work.

This great statesman Borovoy comes forth: he says that Gazprom gets tremendous privileges from the state. Well, sort it out in the end! The privileges, I will explain, Gazprom gives to the state — in the price for gas, in the passing of additional excise taxes. We lose several trillion rubles by this every year.

I am probably, in my political life, the most fortunate of men. I know two or three politicians by sight, and none of the rest, even though a lot of them have passed through my office and asked for support. In general we, I mean Gazprom, will support normal people in all the regions where we live and work. As long as they are not extreme right-wing or extreme left-wing.

The entire board of Gazprom (11 people) obtained 0.046 percent of the shares. My wife does not have a single share — indeed, we do not play these games!

*New Orientation in Currency Export Control Policy Seen

964E0343A Moscow EKONOMIKA I ZHIZN in Russian Dec 95 No 49, pp 1, 2

[Interview with Oleg Ivanovich Pavlov, head of the RF Federal Service for Currency and Export Control, by I. Yakovleva; place and date not given]

[FBIS Translated Text] **Our Introductory Information**

Currency control functions are assigned to the State Tariff Committee, the Ministry of Finance, the State Tax Service, the Ministry of Foreign Economic Relations, the State Committee on the Administration of State Property, the Tax Police Department, the Ministry of Foreign Affairs (coordination with foreign countries with respect to the struggle against the laundering of criminal money), the courts and law enforcement bodies, and even the Ministry for Cooperation with the CIS (on the question of the Customs Union). For all of these departments the job of currency control is one of many jobs; for the Russian Federal Service on Currency and Export Control (VEK) it is the primary job. The RF President's Edict No 1444 of 24 September 1993 established VEK as a coordinating body formed to carry out state functions in currency and export control.

For a long time the service did nothing to stand out, and from late 1994 it went nine months without a chief, but recently VEK has become noticeably more active. It has organized cooperation with other departments, analytical reports for the president's administration and the government and drafts legislative acts are being prepared, and check audits are being made of the activities of legal and natural persons. VEK is becoming an organ through which both interdepartmental coordination and uniform statewide policy in the area of organizing control and supervision over compliance with Russian currency and export laws will be conducted.

A recent meeting of the Russian Government examined the issues of currency control—creation of an all-encompassing system for this control and toughening penalties for violators. Coordinating functions were assigned to the Russian Federal Service for Currency and Export Control. It has recently taken several unusual initiatives in this area which, among other things, have been reflected in the RF President's Edict on Priority Measures To Strengthen the System of Currency Control in the Russian Federation.

In the interview below the recently appointed head of VEK, O. Pavlov, answers the questions of our reporter, I. Yakovleva.

[Yakovleva] Oleg Ivanovich, what are the trends in concealing currency revenue and what is the scale of capital "flight"?

[Pavlov] According to expert estimates, concealment of currency revenue abroad was 50-70 percent of the total volume, in cost terms, of Russian export in 1992. In 1993 it was 30-40 percent. In 1994 the situation changed with the introduction of a mechanism for customs-banking control which covers all Russian export. Only 12 percent of export currency revenue was not received in Russian banks within the established time (180 calendar days) from the date that the goods were shipped abroad. At the present time the unreturned proportion of currency revenue from export operations is estimated at about 4 percent. Final figures will become known after the results for 1995 are totaled.

How much currency is located abroad? It is hard to give an exact figure. Part of the capital, for example, returned to the Russian economy in the form of foreign investment (cases are known where the Russian entrepreneur agrees with a foreign company, transfers currency, and the foreigners invest it in the Russian economy in their own name). There is a spread in the estimates. The Bank of Russia estimates the export from the country in recent years at $50 billion, while other departments think that in 1992-1993 capital leakage was $15-20 billion a year. In 1994-1995 it decreased to $7-8 billion a year, which illustrates an established tendency to decrease. (Incidentally, according to a statement by President Leonid Kuchma the leakage of capital from Ukraine is $10-30 billion a year!)

Capital leakage from Russia was especially critical in the early 1990s and was directly tied to the overall state of the economy and the conditions of functioning of capital, and the political standoff between the Supreme Soviet and the RF president—don't you think that was reflected in the attitudes of entrepreneurs? The instability prompted entrepreneurs to conceal their money abroad and not to invest it in the national economy. The situation has changed today; economic and financial stability have begun to form, promoted by establishment of the "currency corridor," the reduction of export duties, restriction on growth in monopoly prices, the development of the securities market, and other measures undertaken by the RF Government. As a result an increase in investment activity is being observed, including foreign investment, and this is a guarantee of production growth. In short, in certain areas the income rate for investment in the Russian economy makes it more attractive than investing in the Western economy. The Russian businessman today desperately needs money in Russia, while it is hidden abroad producing minimal income. Sometimes it is lying completely inert, at a time when in our country it would be working and solving many problems that business people have.

[Yakovleva] Do you think that the focus of concealment of currency revenue is moving from export to import?

[Pavlov] Yes, that may be true. After the tightening of controls on export and the substantial work of the State Tariff Committee and the Central Bank (as the result of steps taken, including by VEK, in the last two years the leakage of currency has decreased to 4 percent of the sum of transactions, which corresponds roughly to world indexes in this area), non-return of currency became concentrated in import. What are the most common tricks used in violations in this sphere?

Rendering payment without delivery of the goods or nonequivalent receipt of goods. In addition, the widespread use of advance payments essentially means that residents of Russia are granting interest-free credit to foreign companies. According to Central Bank data based on the reporting of commercial banks, about $400 million leaves Russia each month through noncash transfers based on falsified import contracts; this is approaching the value of the export of all nonferrous metals from the country. The challenge of Letter of Instruction No 30 of the Central Bank and State Tariff Committee is to stop the export of foreign currency abroad through import channels.

In general, the creation of the currency control system breaks into three stages. The first is customs-bank control over export of goods (already done). The second is control over import operations (this is being introduced as of 1 January 1996). The third and final stage is control over other operations (barter, tolling, export of services, and so on).

[Yakovleva] What proposals did VEK make at the 23 November government session devoted to improving the currency control mechanism?

[Pavlov] I think it is essential at the present time to adopt legislative acts which place real barriers in the path of illegal export of currency. Among the various proposals made by VEK to improve the control mechanism, these are the most important ones:

—establish that the liquidation of legal persons engaging in foreign economic activity is possible only after the foreign partners have performed their obligations under contracts concluded with the given organizations;

—establish that settlement of the accounts of foreign legal persons carrying on entrepreneurial activities in Russian territory is carried on only through ruble and currency accounts in fully authorized Russian commercial banks, in the case where their activity in Russia last longer than one month;

—institute control over compliance with existing legal norms in the areas of privatization and the securities market and introduce measures of accountability for their violation;

—introduce a uniform procedure for registration of representatives of foreign companies and putting them into the records at the appropriate Russian organs;

—establish that natural persons, residents and nonresidents, have the right to export foreign currency cash in a one-time amount equivalent to no more than $10,000 per person.

This last proposal may possibly require additional explanation. It (like the proposal to restrict the one-time sale of currency for cash rubles to $10,000) is not directed against honest, law-abiding citizens. Incidentally, when I asked a banker acquaintance whether $10,000 would be enough for him to take a business trip to the West, he answered that it would be plenty. So this measure is directed against the exchange of criminal money and export of currency based on an exchange office document. A classic case is known where a certain Mr. X changed rubles for $40 million at a certain bank and was able to head directly for Sheremetyevo-2 where, completely legally, he flew out of the country with a suitcase full of dollars. But deals of more than $10,000 come under the view of the tax organs. Their attention will be heightened if one person shews too many currency purchase documents. There will be no problems for people who have legal income and have included it on their tax declaration.

[Yakovleva] What changes do you think are needed in currency law?

[Pavlov] The experience of the last three years has shown that the Law on Currency Regulation and Currency Control, many of whose provisions have a measured character, requires modification because it does not fit the situation that has developed. In particular, the section of the law on currency control in the part concerned with its organization and delineation of functions needs greater specificity. A number of provisions of the law do not ensure the necessary regulation of the internal currency market and operations by residents and non-residents involving the movement of capital. In the opinion of Russian VEK, the new version of the law should be dominated by direct-action norms, which will make it possible to avoid the possibility of the occurrence of negative consequences for the economy. They afford an opportunity for varied interpretations in application, as well as evading responsibility in some cases.

We also favor the adoption of a new Law on the Organs of the Federal Service for Currency and Export Control in the Russian Federation. VEK prepared a draft of this, coordinated it with all interested ministries and departments, and submitted it to the government, but three months have already passed, and the draft is sitting idle. We hear arguments that our problems need to be solved by additions and amendments to existing legal forms, but won't this mean endlessly plugging holes? Isn't is better to made a fundamental correction to the existing situation through the law? After all, laws on the State Tax Service and the Tax Police have been adopted, a draft law on the Tariff Service has been introduced in the State Duma, and so on.

[Yakovleva] Won't currency and export control be weakened by the CIS Customs Union's admission of new countries whose foreign economic laws differ greatly?

[Pavlov] The problem exists, of course, and the members of the CIS Customs Union understand the need to standardize legislation in this area. A meeting of the heads of the CIS customs organs was held recently at which these issues were discussed. Indeed, a decision was adopted to unify legislation in the area of currency control as quickly as possible.

[Yakovleva] Do you think it is essential to tighten currency and export control? If you do, doesn't this conflict with the rules of international trade, the norms of GATT and the WTO [World Trade Organization], which Russia is intending to join?

[Pavlov] No, it does not conflict. I was in Geneva at the first session of the working group on Russia's admission to the WTO, and the response to our measures toward currency control was entirely appropriate. The rules of international trade do not apply to currency control, which is regulated by national law in all countries.

The problem of capital leakage abroad is not a uniquely Russian problem. The West is serious concerned about this, and organizations like VEK are cooperating closely among themselves and with us. Incidentally, this kind of cooperation is also being organized within the CIS: agreements have been concluded with Belarus and Georgia and we are cooperating with Uzbekistan, Ukraine, and Kazakhstan.

We expect that early next year we will conclude an agreement with Italy, which has the toughest currency control in the world, and with China, where there is a very unequal exchange in border trade today.

In our view what is needed is not tougher control, but more detailed regulation of the particular aspects of foreign economic activity, as is done in most countries of the world. Moreover, a precise and clearly formulated procedure for conducting currency, export, and other foreign trade operations helps the participants in this activity themselves. After all, reasonable "rules of the game" are established, and of course the implementation of currency and export control is ensured.

In conclusion I would like to say that our main purpose is to put the emphasis on a broad spectrum of preventive measures to bar violations by participants in foreign economic activity, not on prohibitions, restrictions, and penalties. We need to create objective conditions and a civilized legal field in which they can operate normally and invest in the Russian economy, and make it economically disadvantageous to export capital as compared to investing it in Russia. From the economic point of view capital leakage is the same thing as the flight of capital from unfavorable functioning conditions. We must eliminate cases where, as the result of imperfections in currency law, conscientious entrepreneurs who want to work normally and in the interests of Russia, are prompted to violate the law.

*Economic Institute Chief on Future State of Economy

964E0416A Moscow KOMMERSANT-DAILY in Russian 27 Dec 95 p 2

[Article by Andrey Illarionov, director of the Economic Analysis Institute, and KOMMERSANT-DAILY commentator Sergey Viktorov: "Russia on the Boundary of the Centuries"]

[FBIS Translated Text]

Under the Debris

Nothing good awaits Russia, not only next year, but also in the next 20 years. "We will just watch as not only the "tigers," but also our former neighbors in the USSR, pass us by one after the other," believes Andrey Illarionov, the director of the Economic Analysis Institute.

Next year's economic results can be predicted even now — they have been determined by the government's actions in the second half of 1995. By the end of 1996, inflation will stay within the limits of 3-10 percent. It is true that, in the middle, there will be some reduction, but, all the same, the increase in prices over the year will be large — 60-80 percent. The dollar's exchange rate will continue to fall, it is true, not as rapidly as before, but it will also not be at the level it was in the summer of this year or in 1993. In 1996, production will stagnate as before, because there are no grounds for economic growth. At best, production will not fall and, at worst, it will drop a few more points. The standard of living will most likely remain at this year's level.

Of course, there will be no hyperinflation in Russia, there will be no catastrophic drop in production and the standard of living and there will be no "Black Tuesdays," but there will also be no economic growth and there will be no financial and macroeconomic stabilization. In general, there will be decay like what we had over the course of the 20 years of Brezhnev.

So what will there be in the year 2000? No basic changes will occur. The country has already chosen a development model — one close to the pre-reform Latin American economies. This will be a quite highly monopolized economy with large and, as a rule, incompetent state meddling. Gigantic financial-industrial groups [FPG] will be formed, which will also shred the remaining national riches. This is why the market will also be regulated by the state and by this dozen or so FPGs. To put it briefly, by the year 2000, the country will be reminiscent of Argentina during the time of President Peron — with an alleged market economy and an alleged free course, but, at the same time, the size of the state subsidies will be large, the portion of tax confiscations will be large and there will be massive breaks for companies of one sort or another. The strength of these groups will be determined not by their competitiveness, but rather, by the degree of their proximity to the state. But, even under these conditions, there will be economic growth. It will be small — 2-3 percent annually, sometimes even 4 percent. The standard of living is stabilizing and may even rise by that same 2-3 percent. But, the kind of sustained, stable growth which could pull Russia out of its current state — 5-6 percent over the course of 10-15 years — will not occur. As a result, the economic growth which will have begun in 1997 will amount to 5-6 percent by the year 2000.

Predicting what the country will be like in 2015 is very complicated. It is complicated because it is most likely that, at this time, the peak of the social transformations, which are comparable to those which occurred in the second half of the eighties and the beginning of the nineties, will occur. I will not undertake to predict their specific direction, but I want to hope that they will lead to the scrapping of the currently forming trends. But, until then, a "Latin American" economy will "blossom" in Russia. Each year, we will discover more and more new countries which will pass us by in economic development. Currently, Russia's VVP [Gross Domestic Product — GDP] is somewhere at the level of $800-850 billion. This means that we are at the border of the top 10 most developed countries of the world. We will remain in this group in 1996 as well. By the year 2000, however, not only will China, Brazil and India pass us by, but also South Korea, Mexico and Indonesia. In other words, by the end of the millennium, Russia will be somewhere in 15th place in the world. And, by 2015, it will move to the bottom of the top 20.

Russia will look even more unattractive, if its GDP is looked at on a per capita basis. Currently, this indicator in our country amounts to 15-18 percent of the USA's level In the future, this disparity will neither decrease nor increase — the rates of growth of Russia and the USA will be approximately identical. However, the rest of the world's countries will gradually outdo us. Thus, not only will the East Asian "tigers" pass us, but also almost all the former republics of the USSR. First and foremost will be the Baltic States and Moldavia [Moldova] which will reach the average European level by 2015 already. Ukraine and Belorussia [Belarus] will outgrow their own childhood illnesses sooner or later and also pass Russia in their standard of living. Among the Transcaucasian countries, Armenia and Georgia have the best prospects — they are facing the fate of Lebanon before the start of the civil war and of Syria before the coming of Hafez Assad. "Trading nations," they will inevitably follow the Near Eastern path of development, on which they will pass Russia sooner or later.

[Boxed material follows]

Following the widespread New Year's tradition of looking into the future, KOMMERSANT-DAILY's editorial staff turned to a number of our leading economists with a request for a prediction of Russia's economic development in the near future and the more distant future. To the staff's inexpressible surprise, most of the responses were of such an indeterminate nature that it was necessary to state involuntarily the fact of the degeneration of the futurological genre in Russian economic thinking. The only consistent vision of the future (see the article of the director of the Economic Analysis Institute, Andrey Illarionov) was permeated with profound pessimism. Inasmuch as the New Year's prediction is bad — not a prediction at all, there was nothing else we could do but, on our own, "being guided by the striving for the most complete and professionally correct illumination" of the problems of Russia's economy, to prove that the optimist's look into the future is not a sign of either semi-official stupidity or a mental disorder. We will leave on the conscience of the German economist, Fritz Schumacher, the accusation of pessimists as "spreaders of paralysis" and of optimists as "blind men leading blind men." In contrast to him, we believe in the free market and the life-giving force of competition and so, we believe in the final tally in the progress of Russia's economy. [End of boxed material]

Out From Under the Debris

KOMMERSANT-DAILY commentator Sergey Viktorov believes the pessimism with respect to the future of Russia's economy is unfounded. By the year 2000 already, because of the shortage of resources, the consumer market in Russia will suffer the definitive failure, labor and capital (including foreign) will appear in the country and an increase in production and exporting will begin.

The pessimistic view of Russia's future is now very widespread: the crisis of the post-socialist economy really turned out to be very deep and it is far from overcome. Moreover, it should be remembered that an economic crisis is currently being experienced not only by Russia, the former Soviet republics and the eastern European states, but also by almost all the developing countries which are reaping all the fruits of those same socialist experiments. The reforms, which have been continuing there for more than a decade now, have also not produced any special fruits. In general, the economic pessimism now has every chance of prevailing in the greater part of the world. The situation is becoming truly amusing — at the beginning of this century, everyone was talking about the dead end, into which capitalism had led the world, but, at the end of the century, the talk was about the hopeless situation, to which socialism had led.

In point of fact, not everything is so terrible: the world survived under the conditions of the crisis of capitalism and it will survive on the ruins of socialism as well. As has already been proven, there are no endless crises. The crisis capitalism of the century's beginning, criticized by the socialists for the backbreaking labor and the impoverishment of the broad masses, created the material wealth which later sufficed both for the "consumer society" in the West and also for the consumer society, this time without any quotation marks, in the rest of the world (the socialist experiments were really nothing more than an orientation of an economy toward consumption). However, socialism's crisis just means that the world needs to curtail consumption somewhat and to engage again in production — first and foremost, naturally, this pertains to the most crisis-ridden countries. It is unpleasant, of course, but quite feasible — and, what is the main thing, feasible within sufficiently short time frames.

A few things are necessary for production: on the one hand, a not too capricious work force which is compelled to work and, on the other hand, capital. The predictions, according to which the stagnation in Russia will continue for no fewer than another 20 years, basically proceed from the presumption that there will be neither labor nor capital here for a long time to come, while, on the other hand, a socialist-type consumer economy will be maintained. In point of fact, a socialist consumer society, no matter in what form, has already become impossible for all practical purposes (just like a capitalist-type consumer society as well — for the time being). Russia has abandoned one of the main elements of consumption — the state element, in the form of the ambitious military, political and economic projects so typical of the USSR. And, in the near future, it will be forced to abandon the second element of consumption — the mass social guarantees (naturally, the discussion is not about the inevitable political demagoguery). There are almost no resources for a social policy: Russia is spending the remnants of the revenues from the exporting of raw materials. And there will no longer be Western credits on the previous scales and this is almost the main thing which should be remembered. The amounts granted by the MVF [International Monetary Fund — IMF] are just a symbolic gesture: for their part, the Western commercial banks and states may defer as much as possible the payments on the already existing credits, but are unlikely to grant as many loans as they already have. In general, by the year 2000, Russia may well obtain a work force which is ready to work in order to live.

Of course, it will be somewhat more difficult with capital — if there are no resources in the country, national capital will have to be created basically from scratch. However, as worldwide experience has shown, given an abundant cheap work force, the accumulation of capital occurs quite rapidly. Moreover, strange as it may be, foreign investments should also be remembered. Up till now, they have not come into Russia simply because, in point of fact, no one needed them — a consumer economy does not need capital, but rather, credits. And only now, when no more credits can be obtained and the consumer economy is close to failure, are investment prospects emerging in Russia. It is interesting that the Western banks, however, perhaps, want to stimulate Western investors — they will not give Russia any more money, but they may give it to investors, in order to make more practical the payment of the already existing Russian debts. In general, there is every reason for optimism: already at the beginning of the next millennium, Russia may well begin to produce something and even to export. This is already good — in the end, this is also economic growth and the most developed Western powers are engaged precisely in this.

*Economic Program of 'Reforms-New Course Movement' Viewed

964E0401B Moscow KOMMERSANT DAILY in Russian 22 Dec 95 p 3

[Article by Yu. Latynina: "Reforms-New Course Movement Offers Everything That Is Attractive to Voters and Does Not Frighten Its Sponsor"]

[FBIS Translated Text] **The founding conference of the Reforms-New Course Movement signals the birth of a new bloc designed to utilize in the presidential elections those social ideas that were approved in parliamentary elections.**

The final document of the conference states that "while remaining firmly in positions favoring the continuation of reforms in Russia, we declare that in its current form they cannot be continued." Basic changes must include "restoration on an appropriate scale of the regulatory role of the state in the most important spheres of life, and primarily in the economic and social spheres. At the same time, wishing to tap the mood of the voters without scaring off the elite, Shumeyko based the idea for his movement on the "New Deal" of Franklin Roosevelt, who brought the United States out of economic stagnation and radically altered the role of the state in the economy.

Even before the elections executive power conceived the organization of two loyal blocs with a right-to-center and a left-to-center orientation, the latter one turning out in practice to be totally lacking in vital capacity. Which, naturally, is connected with the purely administrative helplessness of Ivan Rybkin and not with the potential of leftist ideas. This is indicated by results of parliamentary elections. With the appearance of RNK [Reforms-New Course Movement] the outlines of a new two-party system are emerging. While one party is experiencing the crucible of elections, the other one, like a vacuum cleaner, is taking in the disparate blocs. An attempt is again made to recreate that friction between the ideology of liberalism and economic orchestration which Marxist political economic theory classifies with equal hatred as being in the category of bourgeois pseudotheories, so common in the practice of western democracies.

What does the economic program of a party vying for the role of a Russian version of American democrats of 60 years ago, actually represent? As one should have expected, it offers practically nothing new. It provides for an increase in the role of the state in the economy through the creation of legal and financial-economic levers and establishment of a regime of a most favored national industry. Naturally, "a decisive review of the tax system which is of the confiscatory type," (this is commonly missed by everyone, but not to mention this means to cause dismay, inasmuch as criticism of the existing tax system has become such common practice). A declaration is made of the necessity for social protection and creation of new jobs. That is the same program that the government would have implemented if it had sufficient funds in the budget. It is, however, naive to study this type of platforms from the viewpoint of their economic feasibility. They must correspond not to the real state of affairs, but to the anticipations and psychology of the voter, and in that sense the party program satisfies two of the principal requirements for success. It calms the heart of the languishing voter and in that regard the party program satisfies two main criteria for success and does not frighten the potential sponsor. RNK is initially an opportunistic movement, the elections to it were nothing more than a grandiose sociological experiment to define voter sympathies. As a consequence the program contains a clear proposition as to the necessity of rejecting the formula in economic policy which states "compression of the money supply—declining inflation."

Attention is warranted by the opposition of the banking sector to the needs of the production sector—enterprises deprived of working capital and investment resources specifically as a result of the involvement of banks in speculative games. Such opposition is not accidental: a party oriented toward the various regions is a party which to a significant degree is oriented toward the needs of industry. RNK requires rejection of reliance only on noninflationary methods of making up the budget deficit (that means a decline in the GKO [government short-term bonds] market where the banks have so far been doing well), while striving for "a drop in the interest rate for credit to the level of average profitability of production enterprises." It would be interesting to know how. These are not the times of Karl the Great making it possible to adopt laws against usury). The problem, of course, consists of the fact that replacement of GKO issuance with the emission of banknotes certainly will not lead to the crediting of industry by reconciled banks. Authorized banks (their composition may change, but that institution will not disappear) the credit expansion of the Central Bank will be advantageous only as long as it reincarnates the practice of having cheap money. In addition to that this will lead to a situation where the banks will be making money speculating against the ruble, which is the way it was in 1993. Therefore RNK is not yet a movement which favors those banks that are not opposed to the temporary reincarnation of the realities of an inflationary model.

*NDR Economic Platform Seen as Promoting Stability

964E0339B Moscow ROSSIYSKIYE VESTI in Russian 15 Dec 95 p 2

[Article by Yuriy Aleksandrov: "The Factor of Stability in the Election Struggle—The Economic Measurement of Politics"]

[FBIS Translated Text] Today, literally on the eve of the parliamentary elections, we can summarize certain intermediate results of the ideological-political struggle which is going on over the eternal Russian problem: "What is to be done?" This applies first of all to the economy, the sphere where the strongest ideological preferences are preserved. A large number of diverse opinions are being expressed, including some very exotic ones. For very understandable reasons society's attention is centered on the election program of the Our Home Is Russia (NDR) movement. It is practically impossible for the movement to avoid the image of the "party of power"—that is, a party of persons who are holding power—and the elite economic and political groups linked to that image. In any case, that is the most widespread view of the NDR.

Needless to say, there are no political movements which pursue social interests in absolutely pure form, seeking nothing for themselves personally. Lenin's dream of a social order in which all would labor equally and for modest pay honest government workers would distribute the results of labor justly remained just that, a dream. It is common knowledge that decisions on fundamental issues in the Government are often made as the result of intense struggle with participation by various lobbying groups. Accordingly, the opinion has become established that the NDR is a movement that expresses nothing but certain narrow-group interests.

Speaking more concretely, the "party of power" is suspected of deliberately pandering to certain "giants" of the former Soviet economy out of private-group interests. This refers, above all, to Gazprom [Gas Industry Trust] and the entire oil-gas complex as well as a number of newly formed financial-industrial groups, and this is being done at the expense of—which means to the detriment of—other sectors of the economy and the property interests of the majority of citizens. At the same time there is doubt about the ability of the economic enclaves that are now flourishing to become true "engines of growth" and pull all the other sectors along behind them. From this it follows logically to reproach the NDR for its aspiration, as the "party of power," to monopolize political power and for its reluctance to enter election alliances with other political forces which also represent particular group interests, for example with the KRO [Congress of Russian Communities], the agrarians, or even with the moderate communists.

Therefore, when evaluating the NDR as a political movement the question of **the essence of its program slogans is fundamentally important**. To what extent do they reflect the reality of Russian life and the interests of society as a whole and not, as they say, merely the interests of its comparatively narrow social groups? Relative to the economy the main question is: can we seriously count on "engines of growth"? Will the Russian economy remain broken into two relatively disconnected parts, a limited enclave of economic flourishing on the one hand, and a vast "swamp" of the steadily disintegrating former Soviet economic structure on the other? The best way to look for the answer is by comparing the NDR program with the alternatives offered by other political forces.

The evident diversity of Russian political life conceals more than it reflects the true state of affairs in this sphere—a sharply narrowed **space for real alternative choices**. Time does its work. Literally, the three to four years since the start of economic reform under liberal slogans have proved enough for at least the first contours of the foundational design of the **new economic system** to have emerged.

At the present time it is perhaps possible to identify two basic, fundamental assessments of the economic situation and, accordingly, **two alternative development strategies**, whose bearers are going to clash very seriously in the political arena in connection with the upcoming elections. These are the strategy of the Our Home Is Russia movement and the advocates of rigid state capitalism, among whom the tone is set by the leaders of the KRO. The agrarians and some of the communists toss about between the ideology of the KRO and orthodox socialism. The ideas of the followers of the Liberal Democrats and the slogans of the orthodox communists and socialists have faded into the background, the former because their plan of reforms ran into resistance not only from conservatives but also from the mass of working people in the state sector, and the latter because recollections of the last years of stagnation followed by the unsuccessful "perestroyka" of Gorbachev and Ryzhkov are still fresh in popular memory.

The opposition on the left is still, from inertia, accusing the government of being "stuck" on macroeconomic financial stabilization and neglecting the real economy and social issues. In fact the situation is different. "The liberal stage of shaping the Russian economy is basically concluded," the NDR declares in its program. Liberal policy met its primary challenge, "preparation of the market ground," and it must be replaced by "national savings on the basis of large-scale concentration of domestic capital." The main objective of savings is to form a mixed economy with reliance on large-scale production and major financial-industrial capital.

In the opinion of Our Home, in the first stage of this movement the leading role must be taken by the **"engines of growth,"** intersectorial blocs which have at their nucleus highly profitable export sectors of industry and include at least some of the "giants of former socialist industry" in alliance with major financial-industrial capital. Budget deductions from their income and their own investment demand should, in the design of the Our Home ideologists, lead to an increase in business activity in many other economic sectors which will, in turn, draw in new economic elements, and so on. In economic science this is called the cumulative effect. The state's challenge will be mainly to regulate the formative process of the "self-adjusting" economic system; direct support can only be given in highly selective instances.

As we can see, the "party of power" is very disinclined to carry on debate within the framework of ideologized and politicized notions of into whose hands, precisely which social groups, the former state property has fallen. Whether they are members of the former economic nomenklatura, from banking and other commercial structures, or from somewhere else, the main thing is for the process of forming new economic structures capable of finally taking responsibility for economic development as a whole from the shoulders of the state and assuming it themselves to move steadily forward. Therefore, the change in the strategic slogan is not at all a matter of simple personnel changes in the membership of the government in the time since Ye. Gaydar left. The government has formally become a kind of coalition, but that is not the main thing. It is more important that the levels on which economic policy is conducted have changed: it has begun to acquire a more solid foundation in the organizational structure of the national economy itself than was true in the early times.

The most important of these changes, in the opinion of the NDR leaders, are as follows. The subjects of the economy received an objective basis for economic decisions in the form of a system of market prices instead of the previous system, "which did not reflect any economic reality." Many large enterprises which formed the backbone of the former production structure and social infrastructure are finding effective new methods of operation. Overall they have kept their work collectives and today play an enormous role in supporting social stability. Actual functioning financial-industrial groups are being formed. And finally, the banking sector has appeared and is growing stronger. It is the one, and the only one today, that has **free monetary resources** which can play the key role in supporting increased investment in the production sphere. All this taken together gives the people in power "grounds for realistic optimism." "Russia has begun the transition from the phase of decline and systemic crisis to the phase of stable economic growth." This is the slogan which the NDR, with full justification, is carrying into the elections.

Charges that the NDR is following a self-seeking line in the interest of certain elite groups and "nomenklatura capitalism" in general appear fabricated and arising from the ideological "blinders" many people have inherited from the past. The "engines of growth" should "pull" the whole economy forward because the main thrust of actions has been correctly chosen: carry out savings on a national scale, relying primarily on exactly those sectors of the economy which themselves are capable of this. Not, as the opposition on the left proposes, on those which, by contrast, are themselves in need of comprehensive state support. This choice is complemented and supported by the policy, inherited from the liberals, of financial stabilization with the help of the market mechanism. In other words, this is a policy which makes it possible to create the preconditions for integration of all the elements—occurring by the most diverse methods and relying on the most diverse social groups of society—of a market economy.

The pre-election problem of the NDR, however, is that a correct strategy still does not guarantee victory today. The Russia's Choice movement ran up against this at one time. The situation is made more complex because the signs of positive changes that have appeared in the Russian economy (as well as in a number of other spheres of life) have not yet led to a decisive turning point in public attitudes in favor of the reformers. What is required, therefore, is not just an intelligently formulated strategic design, but also the ability to appeal directly to people, to their concrete interests, and—equally important—to their attitudes, without waiting until the work speaks for itself. This is unquestionably the subject for a separate discussion. The "party of power" is far from having everything in order here, just as Russia's Choice was in its day.

In any case, it seems that all representatives of pro-reformist society, including politicians, should renounce the view that politics is exclusively a matter of defending selfish personal and group interests. This will help form a strong bloc of reform forces against those who are pushing the country backward, toward a system with administratively restricted economic initiative for people and with unequal, which means criminal, methods of maintaining state order.

*Remedy for 'Artificially Created' Economic Crisis Proposed

964F0738A Moscow PRAVDA ROSSII in Russian 21 Dec 95 No 31, p 2

[Article by Anatoliy Todosiychuk, doctor of economic sciences and deputy director for science and economics of NTP Innovation—Info-Marketing: "Science in Reverse: How To Manage the Economy To Create a Crisis. And How To Do It To Get Out of a Crisis"]

[FBIS Translated Text] The crisis Russia and other former USSR republics are living through is not a crisis in the classic sense of the word. That is, it is not a decline in production resulting from overproduction of goods that cannot be sold. Because before reforms began, the domestic market was not saturated with respect to most items. Demand exceeded supply. One proof of unsatisfied demand was the fact that the population kept more than $100 billion—at the then exchange rate—in the Savings Bank. The "transition to the market," declared in January 1992, the main hallmark of which was the liberalizing of monopoly prices, was nothing other than the beginning of an artificial crisis.

An artificially created economic crisis is a sharp decline in the volume of production in all sectors of the national economy because of a sharp decline in solvent demand on the part of potential buyers. And demand fell because of the unstoppable rise in prices. Such a crisis is characterized first of all by a deterioration of scientific-technical and production potential and an accelerated decline in the production of science-intensive and high-technology output. That is, it is not structural in nature and is not cyclical.

In theory, the people responsible for the implementation of reforms—through tax and credit policy, manipulation of prices, distribution of resources, and so on—must regulate the production, distribution, exchange, and consumption of material goods in such a way as to ensure a more rational utilization of resources than in the past. And, as a consequence, raise the effectiveness of the economy and the population's standard of living. In reality, however, all administrative levers were aimed at reducing both production and consumption. Let us compare methods and administrative tools in Russia and developed countries.

Administrative levers	Developed countries	Russia
Price policy	State regulation of prices in environment of inflation.	Freeing of monopoly prices, absence of state control over their continuous rise.
Tax policy	Implementation of large-scale tax reforms in order to reduce the tax burden on corporations and boost their entrepreneurial activities.	Implementation of mainly fiscal policy, increasing the tax burden on enterprises, which leads to a decline in their solvent demand and, as a consequence, further production decline.

Administrative levers	Developed countries	Russia
Credit policy	Setting interest rates on credit that stimulate long-term investment in innovation activities and modernization of fixed assets.	Setting interest rates on credit that follow the rate of inflation. Loans are taken mostly to finance speculative operations in trade and the stock market.
Innovation policy	Pointing the economic mechanism in the direction of creating a favorable innovation climate for enterprises; annually increasing state funding for science.	The economic mechanism is anti-innovation in nature; annual decrease of state funding for science (in comparable prices). The result was that the country lost its leading edge in science and technology.
Policy in the area of property relations	Along with privatization and denationalization, nationalization is implemented in instances where: a) property is not used efficiently enough; b) a need arises for a unified state policy.	All-out privatization of property regardless of the effectiveness of its use, and at grossly understated prices at that. Hence: a) a breakdown of technological chains in production, loss of manageability; b) high-technology and science-intensive production entities switch to production of consumer items; c) large blocks of stock of science-intensive production entities, including in the defense sector, end up in the hands of foreign companies.
Export-import policy	Implementation of optimal protectionist policies in the area of imports in order to protect the domestic market from foreign competitors.	Stimulation of imports, frequently of low-quality goods; domestic producers squeezed out of the domestic market and subsequently go bankrupt.

Naturally, truly bringing Russia out of the phase of artificially created economic crisis will require completely different administrative decisions than are being made now. First of all, a new structural policy. It must include a mechanism for the optimal distribution of resources with the purpose of curbing the decline in key economic sectors vitally important for its functioning. Budget funds must be oriented to scientific research and development, which constitute the core of innovation processes. Cutting the volume of financing for research and development in low-priority sectors will, in turn, cause a decline in demand for investment associated with tangible results.

The state budget deficit should not be the main target of the administration, as the "reformers" decided. The state should balance its budget not by expropriating enterprises' funds but mainly by liquidating the same enterprises' budget deficit. The tax system should be modeled accordingly. In the event of a considerable gap between demand and supply of the final product and, accordingly, of investment, the liquidation of enterprises' budget deficit should be implemented with the aid of bank loans. In this connection, it would be expedient to set a lower threshold for the interest rate on bank loans in such a way that enterprises have zero gain from additional sales generated by a production increase.

The fate of innovation today has been affected both by the absence of state regulation and the undeveloped state of market relations. As a result, a paradoxical situation has emerged. Even in conditions of the unceasing and purposeful decline of the science and technology market, we see supply exceeding demand. Such pseudosaturation of the market is caused by the deficit of solvent demand on the part of both enterprises and the state. But knowledge quickly becomes obsolete. Hence, the degradation of science and its subsequent destruction as a national economic sector. Because of insufficient financing, science is incapable of generating new knowledge at a rate exceeding the rate of devaluation of the results of past research and development. Therefore, in conditions of the deindustrialization of the country, which manifests itself in a structural shift in favor of the fuel and raw material sector and the accelerating collapse of the manufacturing sector, it is necessary:

1. To halt the disintegration of innovation potential through the purposeful conduct of price, tax, and credit policies.

2. To compile a list of scientific-technical programs aimed at the development of radical innovation, funded by the budget in those sectors of science that possess sufficient potential for their implementation.

3. To form a portfolio of the simplest products in shortest supply and concentrate efforts on setting up their manufacturing and production with the minimal involvement of foreign capital.

Our analysis of administrative levers is not exhaustive, of course. But one thing is obvious: The current economic crisis is to a large extent being exacerbated by incompetent decisions on the part of the government. At best. And the longevity of such a government has become possible only because of the lack of a direct and reciprocal connection between the quality of decisions made and responsibility for the consequences of their implementation.

*Economy Minister on Economic Decline in Villages

964E0428A Moscow EKONOMIKA I ZHIZN in Russian Dec 95 No 51 p 25

[Article by Yakov Urinson, Russian Federation first deputy minister for the economy: "The Russian Village at the End of the Year: View from the Ministry of Economics"]

[FBIS Translated Text] The village is experiencing difficult times. The slump in agricultural production, to all appearances, will amount to 10-12 percent, which is extremely dangerous for the country and for the agrarian sector itself.

The state, of course, as before, is giving considerable support to the peasants. Through direct subsidies from the budget, through commodity credits (in the form of mineral fertilizers and fuel and lubricants), and through budget financing of agricultural equipment leasing. It, by the way, redrafted the loan resources of farms into a state internal debt in the sum of about R20 trillion.

There are many reasons for the crisis, but the main one, it seems to me, is that reforms are moving extremely slowly in the village. This is affecting the effectiveness of state support of the APK [agro-industrial complex], and to a significant degree neutralizes the influence of the forms of ownership of agricultural production. As a result there is an intensified influence of such factors as a decrease in land fertility, the deterioration of agricultural equipment, the quality of seeds, the pedigree characteristics of cattle, and the structure of the herd. And also the influence of unfavorable weather conditions appears to be stronger.

On the other hand, it seems that the reserves of growth of agricultural production have already reached their limit on people's personal plots and farms. Because of a low level of technical equipment and the absence of adequate finance mechanisms, they cannot compensate any more for the shortage of products in the collective sector.

It should also be noted that the industrial processing of cattlebreeding products decreased at even greater rates than the decrease in raw material resources. Thus, this year the sale of cattle and poultry for slaughter and the gross production of milk fell by 23 and 13 percent respectively. The production of meat decreased by 29 percent, animal oil—by 16 percent, and cheeses—by 24 percent.

In addition to demand limitations, this is associated with worsening mutual relations between partners in the production cycle. The reason is the slow implementation of already adopted decisions to increase the share of agricultural commodity producers in the fixed capital of processing enterprises. But the latter frequently behave as monopolists.

The production of vegetables and potatoes remains at last year's level. There was a noticeably bigger harvest only of oil-yielding crops and flax. In order not to lower the interest of flax-sowing farms in the future development of this segment of industry, it is important to purchase the entire grown product. In our opinion, this can and must be done owing to budget loans.

An alarming situation is developing on the grain market. The gross yield of grain this year will amount to about 65 million tonnes, i.e., it will be the lowest in the last 30 years. The balance of payments shows that an emergency situation could set in by 1 July 1996, taking into account the carryover of grain for 1 July 1995, the mobilization of all internal resources to ensure overall state needs, seed funds, and also the minimum requirement for grain for industrial processing and fodder purposes. The country's own resources will be depleted, and the grain of the next harvest cannot be used earlier than August of next year.

The situation is also being aggravated by the fact that practically all of the grain resources previously accumulated in the localities have now been exhausted. Many territories are already requesting approval to use state reserves. This is occurring against the background of purchases of grain for the federal and regional funds that were conducted in an extremely unsatisfactory way. The job of the government in the formation of a federal grain fund was less than 10 percent completed. Meanwhile, the situation on the world market during the last six months worsened in connection with the significant shortage and reduction of grain reserves. The price for it in comparison with last year increased by a factor of two.

The activity of commercial structures in the purchase of grain was stimulated under the conditions that developed, which could lead to an explosion in bread prices. A similar case took place with animal oil in December 1994, when retail prices tripled in the course of 10 days.

In order not to permit an increase in the price of bread to a level of more than R4,000 per kilogram, the Ministry of Economics considers it necessary to purchase from its own producers no less than 6-7 million tonnes of grain for the federal fund, which will require about R3 trillion; to resolve the question of sources of financing these purchases in the shortest possible time (a possible variant is the enlistment of the resources of commercial banks under guarantees of the Ministry of Finance of Russia in one or another form); and to ensure the free movement of grain inside Russia.

The Ministry of Agriculture and Food, jointly with the Ministry of Economics and interested ministries and departments and science, is actively seeking ways to perfect the mechanism of state support for the APK. It is proposed to improve the conditions for granting commodity credit to farms and to perfect leasing operations with agricultural technology and equipment.

Besides the budget resources, I think it is also necessary to attract the credit resources of commercial banks and to interest them in participating in such operations. The producers and suppliers of material resources should be selected on a competitive basis. According to the principle of whoever supplies products more cheaply and with less involvement on the part of budget appropriations. But the main thing is that centralized financial resources should be used for the assigned purpose and returned in a timely way. In addition, orders for the delivery of agricultural products to the federal and regional funds should be placed on a competitive basis.

Particular alarm is caused by the decrease in the production of wheat. While 46 million tonnes were harvested in 1992, this year, according to estimates—less than 30 million tonnes.

The situation in livestock farming continues to worsen. Because of low profit and a weak fodder base, the total number of cattle and poultry is decreasing and their productivity is declining. In the last four years the number of cattle in all categories of farming declined by 23 percent, pigs—by 35 percent, and sheep and goats by 38 percent. The production of livestock products is shifting in the direction of small commodity subsidiary holdings (LPKh). The total number of cattle in LPKh's increased in the same period by 24 percent, pigs—by 12 percent. However, in both cases everything is based on obsolete technologies and manual labor.

On the whole the production of meat in live weight this year is estimated at 9.3 million tonnes, or a reduction of 1.5 million tonnes (14 percent) in comparison with the previous year, milk—estimated at 37 million tonnes, or a reduction of 5.2 million tonnes (12 percent), eggs—estimated at 34 billion eggs—with a decline of 3.5 billion eggs (9 percent).

The financial situation of the main agricultural producers is growing worse. Expenditures on a unit of product are increasing faster than actual sale prices. As a result the level of profit of agricultural production last year amounted to a total of 1.4 percent (taking subsidies into account), as against 60 percent in 1993 and 89 percent in 1992. Without state subsidies the sale of agricultural products in 1994 would have brought the APK a loss on the order of 12 percent, including in the production of livestock products—27 percent. Nevertheless, even despite the subsidies, the production of meat from cattle, milk, and wool last year turned out to be unprofitable. The financial situation of enterprises this year is estimated to be even more difficult.

Because of a shortage of financial resources a majority of farms are not in a position to acquire the necessary amount of mineral fertilizers, petroleum products, and agricultural equipment to conduct the normal production process. The application of mineral fertilizers this year, according to calculations, is approximately 10 kilograms per hectare of sowing area, against 24 kilograms in 1994 and 88 kilograms in 1990. Owing to the sharp decline in the application of organic and mineral fertilizers, a deficit has occurred in the balance of nutrients, which leads to soil exhaustion and a drop in the productivity of plowed fields.

Work has been stopped on draining and irrigating land and reconstructing operating land reclamation systems, applying lime and gypsum to the soil, and protecting vegetation against pests and diseases.

The fleet of tractors in the last four years has declined by a factor of 1.3, grain harvesters—by a factor of 1.5. At the present time the provision of farms with the basic types of agricultural equipment is 40-70 percent of what is required, and the average age of operational machines and equipment is increasing.

Agrarian reform directed at a comprehensive restructuring of the APK, the creation of a diversity of forms of farming and ownership in land and other resources, and the creation of a competitive environment and development of a market continued to be implemented. At the same time, there is still no proper return from the reforms that have been conducted. Mainly because of the producers' lack of interest in increasing production.

Of late, the process of forming peasant (farmer) farms has slowed down. During the period under examination 3,900 such farms were established, and their total number, because of approximately the same number of annual bankruptcies, has stabilized at a level of 280,000. Allotted to them are 12.1 million hectares of land, or 43 hectares per farm on average.

Out of the gross harvest of these crops this year farmers have harvested 3-5 percent of the grain crops and beets, 13 percent of the sunflowers, and 1-2 percent of the potatoes and vegetables. In the production of livestock products their share does not exceed 1.5 percent.

*State Committee for Support of Small Business Established

964E0401A Moscow IZVESTIYA in Russian 27 Dec 95 p 2

[Interview with Vyacheslav Prokhorov, chairman of State Committee of the Russian Federation for Support and Development of Small-Scale Entrepreneurship, by I. Karpenko: "The Business Is Small But Problems Are Numerous"]

[FBIS Translated Text]

Can the new government agency find solutions?

Viktor Chernomyrdin signed a statute on the State Committee of the Russian Federation for Support and Development of Small-Scale Entrepreneurship which elevates that committee to the level of a Russian ministry with very broad powers. The federal program of state support of small business is ready for signing. These changes are described for IZVESTIYA by Vyacheslav Prokhorov, chairman of that committee.

[Karpenko] From the very start of reforms in Russia the situation evolved without there being any serious attempts to create an organization capable of coordinating development of small business in the country or helping a private enterprise. Vyacheslav Aleksandrovich, how does the new status of your committee affect the situation?

[Prokhorov] We did not have a strong agency lobbying the interests of small-scale entrepreneurship primarily because our Soviet mentality was not prepared to accept such business, time was required in order to grasp the need and relevance of such work. Fear of creating another bureaucratic maize with an already bloated bureaucracy, was another reason, despite the fact that everyone understood that it was really necessary. Now the time has arrived, the committee has been created and was granted very broad powers. The statute charges it with the task of elaborating and implementing government policy to provide small-scale entrepreneurship financial and credit as well as tax support, ensure creation of the necessary infrastructure, etc. The committee is likewise charged with the coordination of all international assistance that is being extended to Russia in that field, as well as responsibility for elaboration of the federal program for government support of small-scale entrepreneurship and its realization.

[Karpenko] Most of the entrepreneurs complain about the lack of legal protection for small business and the absence of the most essential laws regulating its activity. What is being undertaken to create a standardized base for small business?

[Prokhorov] This is one of the most complicated aspects that will have to be elaborated at great length. First of all it is necessary to attain a situation where at the very least the existing tax legislation would not deteriorate any further, while fully preserving exemptions which are now available to small enterprises, and also simplifying the bookkeeping and taxation procedures. In the end Duma managed to adopt the decision to preserve existing tax exemptions for small enterprises.

At the present time the government is taking one final look at the laws on licensing and leasing. The draft law on small enterprise mutual credit societies is being prepared covering methods of accumulating the funds of these enterprises. There is a pronounced need for a law on the transfer of real estate to small enterprises along with the buildings they occupy. Entrepreneurs are dissatisfied with the current complicated procedure of registering legal bodies and it must be simplified. There is also a whole series of minor issues which, however, make life very complicated for the entrepreneur. Many of them, for example, are just plain afraid to go to banks inasmuch as information which they must provide them (otherwise no credit can be granted) immediately becomes public knowledge. Or, for example, there is the payment for notarization services which amounts to 7—10 percent of the amount of the transaction. That is pure robbery! One must pay 50 million rubles [R] (why?) just for a stamp of a notarization office in a transaction of, let us say, R500 million. The expansive powers of numerous oversight agencies, lacking an appropriate sense of responsibility, or their careless actions, can drive a small business into a corner.

[Karpenko] Still, Vyacheslav Aleksandrovich, it appears that principal difficulties in starting a small enterprise or expanding it, consist of the shortage of money and inability to secure long-term credit under acceptable conditions.

[Prokhorov] The committee has been charged with the task of coordinating the work of the Federal Fund for Support of Small-Scale entrepreneurship. The committee chairman will head the board of trustees of that fund. The fund is granted broad possibilities by the law in providing financial and credit support for entrepreneurs.

The appropriation of hundreds of billions of rubles is stipulated in the draft budget for 1996 for the federal program for support of small-scale entrepreneurship. In order to stimulate investment activity among small enterprises in the first years of their life we are planning on creating a guarantee fund in the amount of R150 billion within the federal fund. Some 120 billion is being proposed for the development of leasing, of which no less than 40 billion is earmarked for small interfarm cooperative enterprises engaged in processing agricultural products. About 20 billion will be reserved to support small business in depressed regions, and in areas affected by natural disasters.

I must stress that we are not striving for the committee to turn into a mini-Ministry of Economics, engaged in the distribution of miserly budgetary funds. That would be simply unrealistic: today the government is unable to find funds that would be sufficient for small enterprises, and the entrepreneur has to work with commercial banks while the government must provide some of the guarantees for repayment of credit. Documents concerning the organization of a guarantee mechanism have already been forwarded by us to local level organs and we are currently awaiting proposals from there for the creation of a clear-cut system. In the very near future we will begin implementing the mechanism for providing such guarantees in several regions of Russia.

Now, about something else, perhaps the most important matter. It is highly important for the committee to acquaint local organs of power with small-scale entrepreneurship since in essence small business is a matter for the regions. If the heads of administration, and executives understand that small business creates new jobs for their republic or city, and brings an influx of goods and services, which means the regular receipt of tax payments, then with all of its current shortcomings small-scale entrepreneurship is capable of making a decisive breakthrough and building a new market. Much depends on the local administration and not just the provision of office space. There are the local taxes, which unfortunately, are rather numerous, along with the cost of municipal services. After all, entrepreneurs frequently find out about a hike in utility rates or rental payments months after they go into effect. These expenditures are incorporated in the cost of their products or services. When substantial sums are deducted unexpectedly due to non-payment from the account of an entrepreneur, he finds himself on the verge of bankruptcy.

Therefore I consider interaction with the regions to be a key problem in the development of small business.

We do not have any regional departments in our structure. But I know that in many of the cities and oblasts local committees are being created on a voluntary basis for the support of small-scale entrepreneurship. They are our junior brothers. In Volgograd, Nizhniy Novgorod, Samara, Ingushetia and Udmurtia they are not always "junior." Even before the creation of the state committee such structures were already in operation in Moscow, Samara, and elsewhere. Yuriy Luzhkov, for example, in almost every speech talks about the development of small business and is doing much to support entrepreneurship. That is understandable: as far as I know 51 percent of the taxes collected by Moscow for its budget come from small business. A small enterprise simply cannot avoid paying its taxes. Large enterprises, like the ZIL [Likhachev Plant], can stall for months, groaning and moaning, and not pay their taxes. In the case of a small enterprise, however, the taxes are inevitably "wrung out," otherwise it will burst like a soap bubble as it is immediately closed.

I also consider something else to be highly important—we will try to organize the work of the committee so that the entrepreneur does not have to deal with numerous agencies, but could obtain an exhaustive answer to his questions here, even if it is a negative one.

*Duma Deputy on Tax Legislation for 1996

964E0420A Moscow EKONOMIKA I ZHIZN in Russian Dec 95 No 52, p 3

[Article by M. Motorin, head of the Tax and Customs Legislation Sector of the RF State Duma's Committee on the Budget, Taxes, Banks and Finances: "Taxes: a Prediction for the Coming Year"]

[FBIS Translated Text] **With the approach of the next fiscal year for taxpayers, they are naturally interested in the prospects for changes in tax legislation. Despite the fact that everyone is talking about the need to reduce the tax burden, few are entertaining hopes for the realization of this course. The fact is that when the time comes to adopt the corresponding amendment to the tax legislation, a question immediately arises about the search for sources to increase the revenues of budgets of all levels.**

The year 1995 was no exception. At its beginning, the State Duma adopted a number of decisions aimed at

reducing the tax burden. Thus, as of 1 January 1996, the tax on the excess of the actual expenses for wages over their standardized figure and the special tax are repealed.

The conciliation commission for the review of the draft of the federal budget for 1996 did not support the RF Government's proposal on the introduction of a unified procedure for calculating earnings from sales upon the shipping of products, since this will not produce the desired effect for the budget and will only worsen the situation of many enterprises which will supposedly have to find additional funds to pay the taxes for goods which have been shipped but not yet paid for. At the same time, the Federation Council approved the State Duma-passed federal laws on the Insertion of Changes and Amendments into the RF Laws on the Value-Added Tax [VAT] and on the Profits Tax for Enterprises and Organizations, which, in the event they are signed by the president, will go into effect next year [1996].

Changes With Respect to the NDS [VAT]....

The most important change with respect to the VAT is the introduction of a procedure, under which the tax amounts paid during the acquisition of capital stock are fully deducted from the tax amounts subject to submission to the budget at the moment they are recorded rather than over the course of 6 months from the moment it is placed into service. Thus, the enterprises will no longer be crediting the budget for these amounts free of charge, which is especially important for enterprises which are carrying out retooling or for newly-established enterprises. This is a serious investment measure which makes it possible to reduce substantially the amount of funds necessary for the acquisition of capital stock.

The second most important change is the standard which establishes that what is included in the turnover subject to the VAT are only those monetary assets, the transfer of which is associated with the payments for wages (work or services). It is clearly defined in the law that exported goods produced in house, as well as acquired goods, are exempted from the value-added tax. In addition, it is stipulated in the law on the federal budget for 1996 that reimbursement for the VAT paid to suppliers of production-related material resources which are used during the production of export products will come entirely from the federal budget's funds.

A whole series of breaks with respect to the VAT is being introduced. Exempt from the VAT are research and development work performed by scientific institutions on the basis of economic agreements, turnovers involving the sale of precious metals in bar form by specially authorized commercial banks on the condition that these bars remain in one of the certified repositories, turnovers involving the sale of goods by duty-free stores, the payments of small enterprises for leasing transactions and certain other items.

A break with respect to the VAT is being restored for goods imported into the territory as an investment in the charter capital of enterprises with foreign investors.

The break for enterprises, in which more than 50 percent of the total number of workers is made up of disabled persons, has been reworded. Now it does not extend to enterprises which carry out supply-and-sales, trade or procurement activities (except for enterprises owned by public organizations of disabled persons). The new wording makes it possible to retain the break for real enterprises of disabled persons and, at the same time, to limit widespread abuses of this break.

The VAT rate is being lowered from 20 percent to 10 percent for grain, raw sugar, fish meal, fish and marine products sold for use for industrial purposes, feed production and the production of medicinal preparations.

A procedure is being established for the crediting and reimbursement of the initial VAT for enterprises involved in the mining of precious metals using the general tax payments. Small enterprises will pay the VAT quarterly. At the same time, in both the Law on the VAT and the Law on the Profits Tax, small enterprises will be defined in accordance with the criteria established in the Law on State Support of Small Enterprise in the Russian Federation.

In addition, a number of provisions of RF Presidential Edict No 2270 of 22 December 1993 on Certain Changes in Taxation and in the Mutual Relations of the Budgets of the Various Levels is being introduced into the laws being passed. Changes have already been inserted into this edict's provisions in connection with the adoption of certain federal laws, which requires its repeal in the near future and, correspondingly, the transfer of those provisions which have not lost their pertinence.

...And With Respect to the Profits Tax

It has already been noted that the RF Government proposed the elimination of certain breaks with respect to the profits tax. After lengthy discussions, it was decided to retain the break for small enterprises in the amount of paragraph 9 of RF Presidential Edict No 2270.

The break on the financing of nonproduction-related capital investments was limited to just housing construction, but, at the same time, this break was extended for all capital investments to the interest for credits obtained and used for these purposes.

The break with respect to profits directed toward the creation of reservc and other similar funds was limited. Whereas its amount had been previously limited to 25 percent of the charter capital, now this percentage may not be larger than the legislatively established minimum obligatory amounts of these funds. For example, for joint-stock companies, the minimum amount will be equal to 15 percent (in conformity with the new Law on Joint-Stock Companies passed by the Duma). In addition, these funds' assets are supposed to be used for the purposes stipulated by legislation. For the joint-stock companies, these are the covering of losses, the paying off of the company's debentures and the redeeming of its shares in the event of the lack of other assets. Among the other most important changes is the increase based on the inflation index (determined by the RF Government) in the residual value of the enterprises' property when it is sold (deducted from the selling price to determine the profit).

During the calculation of the taxable base of banks and other credit organizations, the gross profit will be reduced by the amount of the allocations for the formation of reserves for the depreciation of securities and for possible loan losses.

A standard is being established, according to which the list of expenses included in the production cost of products (work or services) and the procedure for deriving the financial results taken into consideration during the calculation of the taxable profit, will be determined by a federal law. This law is already in preparation and will be examined in the State Duma next year.

Pending the passage of this law, during the calculation of the taxable profit, it will be necessary to follow the existing procedure for determining the makeup of the expenses for the production and sale of products (work or services) and for deriving the financial results taken into consideration during the taxing of profits. The following may be regarded as among the most important changes being introduced by the Law on Changes in the Law on the Profits Tax for Enterprises and Organizations.

Being exempted from the profits tax are the funds obtained within the framework of free assistance rendered by foreign states in accordance with intergovernmental agreements; funds obtained from foreign organizations under the procedure for free support of Russian education, science and culture; funds obtained by privatized enterprises as investments as a result of the holding of investment competitions (trades); funds transferred between main and subsidiary enterprises, provided that the main enterprise's share amounts to more than 50 percent of the subsidiary enterprises' charter capital; and funds transferred for the development of production and nonproduction facilities within the limits of a single legal person.

The individual formulations of important significance for the application of the law have been defined precisely.

Thus, for example, revenues in hard currency will converted into rubles not at the moment the funds are deposited into a currency account, but rather, at the moment of the enterprise's determination of the earnings from the sale of products (work or services).

Enterprises engaged in joint activities are now obligated to determine quarterly their share of the profit and to pay from it the profits tax (regardless of its actual distribution).

The tax on foreign legal persons' revenues from sources in Russia will now be paid with each payment by an enterprise which pays out revenue and, in the event of the payment of non-monetary revenues, the tax is paid based on the monetary equivalent of the revenues.

A substantial change occurred with respect to the method for defining more precisely the amounts of advance payments. Now the difference between the tax based on the actual profit and the advance payments is defined more precisely by the amount calculated proceeding on the basis of the interest rate for the use of bank credit as established in the previous quarter by the RF TsB [Central Bank]. I.e., not only the additional payment, but also reimbursement will occur with refinement for the payment for the use of credit.

On the whole, however, the laws passed by the State Duma and approved by the Federation Council will indeed insert substantial changes into the tax legislation, but they are not the beginning of tax reform. The RF Government is tying it to the adoption of the Tax Code, which is very unlikely in the near future. The taxpayers will have to wait a little while.

*Academician Perlamutrov on Crisis in Banking System

964E0405A Moscow BIZNES I BANKI in Russian No 50, December 95 pp 1, 2

[Article by V. L. Perlamutrov, deputy director of the Institute of Market Problems of the Russian Academy of Sciences: "Banking Crisis or Crisis of the Central Bank of the Russian Federation?"]

[FBIS Translated Text] **V. L. Perlamutrov, in his article on the banking crisis the deputy director of the Institute of Market Problems of RAN [Russian Academy of Sciences], doctor of economic sciences, corresponding member of the Academy of Economic Sciences and Entrepreneurial Activity, raises the traditional Russian question—whose fault is it?**

It is understandable that without a banking system there would be no market economy, but with a system such as the one we have today a market economy will not form. Of course, the banks could continue churning "short money" for quite some time, and even though not at a very fast pace, they can derive income from currency speculations, but that is all—exclusive internal matters of the bank. The economy, however, as we know, does not need that. The categorical demand being made by the economy on the banking system is issuance of credits for fixed and working capital of the real section of the economy, i.e. reproduction of capital on an expanded basis. Otherwise the real sector does not need the banking system. In any case it will create its own, alternative banking system. After all, production can not come to a stop and cease to exist!

Everything in Russia seems to be happening in a lopsided way. Commercial banks en masse appeared not as a tool for servicing production and an active factor promoting growth of national wealth, but as financial institutions making money on money. They earned their first millions through speculative transactions with foreign currency, on the basis of short-term credit for trade and structures engaging in export-import operations, i.e. by investing money in the branches where it quickly turned over and brought unjustifiably high profits. That made it possible to pay very high interest rates. Commercial banks grew stronger, and increased their statutory capital and assets, created new departments and branches. We are, naturally, not talking about all commercial banks. Some of them, developing on the ruins of former branch union ministries, take an active part in the reproduction of capital. For them that was an extremely difficult and risky matter inasmuch as long-term credits in industry turn over slowly, money disappears with inflation and nonpayments, and the profitability of industry and agriculture is low.

Inept assistance for the Russian economy by commercial banks is due not only to their unwillingness to make medium and long-term investments, but also of the fact that they are actively promoting the unhindered export of capital, the transfer of the small profit that is earned in the country to foreign banks. It turns out that the value, created in Russia, is working for some other economy. Export of capital far exceeds credits and loans which Russia receives from the foreign countries and international funds for its obedience in the conduct of economic reforms. True the Central Bank of Russia is guilty to an even greater degree. But that does not make it any easier for the country's economy.

This gives rise to symptoms of the crisis in our monetary and credit system, expressed in the "Black Tuesday, as well as in the failure of once well-known powerful banks, in the liquidity crisis, etc. That, by the way, lets the bankers understand that without operations in the real sector, they will not survive for long. In their search to supplement their funds the banks are increasingly appealing to the populace and competing for the savings of small investors. First of all, however, the impoverished population does not have that much money on hand (estimated at around 5 trillion rubles [R]). Secondly, what will happen with this money if it does end up in the banks? Will it find itself in the real market or will it again flow to the West? One thing is clear: Russian money must work for Russia increasing its national wealth. This can and must be accomplished only through investments in production. Banks which do not take part in that process are condemned to fail together with the entire credit and monetary system

The profit margin in industrial production in Russia is very small so far because of a drop in demand for products, the aging of production capital, low productivity of labor, and an uncontrolled rise in prices for raw material, transportation, energy sources, etc. Yes, and by the way, when profit of enterprises is calculated not from the sale of products, but from shipments (it is done that way because of the payments crisis), profits became a kind of fiction. Is there any or not—no one seems to know. Vast funds, which the banks or the government do not have right now, are required in order to renew fixed capital and introduce high technology. The length of time payments have been overdue today in industry has reached three months. What kind of a market economy can there be when payments in full are not being made for deliveries and services? Highly lopsided, of course. In order to keep industry from collapsing from time to time the government works out specific purpose programs to support individual branches and regions. The sources and amount of financing envisaged in them, at best, postpone the collapse and cannot ensure an upturn. In the given situation even such an approach is better than nothing, but commercial banks are very unwilling to participate in these programs because of the great risks involved. Consider, for example the Mytishchinskiy Commercial Bank. With government guarantees it invested considerable sums in the conversion program, but the money was not returned and a liquidity crisis ensued. Government guarantees proved to be empty promises, while the Central Bank refused help out of the reserve fund, into which commercial banks deduct 20 percent of their capital which is more than in any other industrialized country. Mytishchinskiy Bank ceased operations, which had a very negative effect primarily on its clients—the industrial enterprises. Production which was barely organized was again on the brink of collapse. The liquidity crisis affected tens, and perhaps hundreds of banks throughout all of Russia, but not one of them received legal support from the reserve fund of the Central Bank. The matter is that 95 percent of its reserves were distributed by Central Bank in short and medium-term securities in the United States and Germany. It turns out that the Central Bank is actually crediting the economy of other countries with money that belongs to Russian banks and which is in catastrophically short supply in our industry. That is even worse than lightmindedness or incompetence.

The matter is not just proper or improper utilization of the Central Bank reserve fund. The matter is the long-term policy of the government, its goals and means of achieving them. Crises such as ours, occur in other countries as well. The one most closely resembling by nature and conditions involved in the decline of production and chaos in the economy, is the great depression in the United States which occurred in the early thirties. The reasons and conditions of the crises differ, but the economic position of the country finding itself in a crisis situation, is more or less the same everywhere and is expressed in a sharp drop of production and effective demand, extreme need for turnover capital and renewal of the fixed capital, lack of funds for investments, and unemployment. What did President F. Roosevelt begin with? In March 1933, on the fourth day following his inauguration, he introduced his first law in the United States Congress—"Emergency banking law." On that same day the House of Representatives adopted that bill (unanimously!) while in the Senate there were only a few members opposing it. On the evening of that day the bill was returned to the White House and signed by the President. In the history of the Congress of the United States that was an unprecedented event.

Everyone understood that the country was on the verge of collapse and needed a reliable lever in order to resolve the crisis. The essence of the law was to regain the trust of the people in banks and force the banks to invest in the real sector of the economy. In accordance with the law a full government audit of commercial banks and financial corporations was carried out. That operation took only two weeks. A third of the banks failed even before Roosevelt arrived at the White House. Out of the remaining banks about a third were judged insolvent and closed in accordance with the new law. That same law prohibited investment banks from engaging in short-term operations, giving them only the opportunity of financing investments in the real economy. Roosevelt allowed for inflation, i.e. the printing of paper dollars in excess of the amount of gold in Fort Knox, forbidding the export of gold out of the country. He initiated investment demand, including the placing of government orders for armament, shipbuilding, and housing construction.

Those Americans opposed to the President and his "New Deal" were asking whether F. Roosevelt had become a socialist or even a communist. He responded by saying: "Call it fish or meat, as long as it tastes good to the nation." In other words Roosevelt and his team had a good grasp of the essence of a market economy and did everything possible in order to clear the path from debris formed by the crisis. Nevertheless the United States needed over ten years to recover completely from that crisis. The most important measures, however, were launched during 1933-1934.

A great role in eliminating the economic crisis can be played by small business, which is assumed to be not small-scale trading out of stalls and tents, but mainly production with more than 200 workers. Such a business is satisfied with relatively limited credit, accumulates manpower, seeks effective markets, and expands production turnover with all of the consequences that favor the economy. In France, for instance, during the oil crisis of the seventies, the aid extended by the government to small business made it possible to "draw into it" almost all of the able-bodied workers who had lost their jobs in big business. The government created the Sofaris Insurance Company to cover any losses by commercial banks issuing loans to small business.

The role of small business got the attention of Great Britain as early as in the postwar crisis. The British adopted a national program of investment priorities, which not only satisfied the needs of the mother country, but also supported foreign trade and, naturally, supplemented the country's finances. It is important to recall that the British pound sterling, which was highly influential on the world market at one time, became a convertible currency again after the war only in 1958.

The well-known Scottish economist Alek Nouv, once told me that after demobilization at the end of the Second World War, with the rank of major, he received what was an impressive amount of severance pay at that time. His schoolmate, who had become a chemist, proposed combining their efforts in order to open small-scale production of women's cosmetics which promised considerable profits. The municipality of their city of Glasgow refused to register the firm for the young men on the basis that cosmetics is not listed in the national program of priorities, and suggested that they go into sewing production or organize the output of synthetic fertilizers.

The British example is not an isolated case. Postwar France, Japan, and other countries also cut back, narrowed, and even closed the free financial market and channeled the flow of money into the real sector of the economy, into working and fixed capital in priority branches, regions, and enterprises.

In this article there is no need to list all the methods used to resolve an economic crisis in other countries. Each country used its own methods—both postwar Japan, and countries of Europe, "Asiatic tigers" etc. These methods are strongly linked with national conditions, the international situation, and even with the mentality of the population of each country. They cannot be copied nor mechanically transposed from one country to another. But they must be understood since they are all united by common objective conditions in resolving an economic crisis.

When analyzing the situation in finances and in the real economy of Russia, the impression is created that people managing the economy resolve the tasks set before them in a highly inadequate manner. We, unfortunately, do not have a F. Roosevelt, G. Sokolnikov or A. Erhardt. While Mr. A. Chubays, Mr. Ye. Yasin, and Mr. V. Panskov have undertaken only to fulfill the demands of the IMF. For that we get some credit ($1-2 billion for the year). But a deficit-free budget and suppression of inflation can be attained only with a growing economy when industry, construction, and agriculture start yielding an abundance of saleable products and, therefore, generating income. Instead, however, the government, using a very rigid fiscal policy, literally beats every kopek out of all sectors of the economy and finances. As a result of that there is massive nonpayment, it is impossible for capital to grow, and prices rise. After all it is only the rising prices that somehow compensate for the high taxes. Enterprises and branches have been bled to the point where they are "consuming" their own capital. There is no need to even speak about expanded reproduction. There cannot be any mention of resolving the crisis under such conditions. There is nothing to invest, and in the long-term nothing is visible, except those disadvantageous foreign loans.

The problem facing Russian economy, in the final analysis, consists not of the high rate of inflation and the budget deficit. These are consequences. The causes, without the elimination of which it is impossible to resolve the crisis, consist of the chaotic nature of prices, profits and taxes. If the government adjusts these key market economy levers, resolution of the crisis will become a real possibility and it will thereby become possible to tame inflation and establish financial order. From the great crisis of the thirties to the oil crisis of the seventies—countries struggling to avoid catastrophe, acted precisely in accordance with such a scheme. The inclusion of production expenditures per unit of goods and services is determined legislatively. That prevents the possibility of excessive "build-up " of prices. While superhigh profits are "negated" by the tax rates. Violation of the law brings both material and criminal penalties. Furthermore, the government controls the dynamics of prices in the national economy. What is most important here is to ensure parity of prices in the economy—from the extraction of raw material and fuel to bread, clothing, housing, and the like. That is realizable, for example, by determining the profit norm in the price at a level somewhat exceeding the true inflation rate, creation of an appropriate volume of demand for products by enterprises and the population. If that is not done, production will continue to go down. If production begins growing so will the incomes of workers thereby ensuring effective demand, which will stimulate production and market growth.

Such reorientation in the flow of money can be realistically carried out only by commercial banks. Then they will appear saviors of an economy in a deep crisis. The Bank of Russia, however, must play the first violin, however. After all, in every one of the industrial countries the central bank is king of their economy. At a scientific seminar in Paris I saw how ministers shake the hand of the Bank of France director: like various generals shaking the hand of a marshall. The central bank in a market economy is an analog of the State Planning Commission in an administratively managed economy. Our current Central Bank does not tend toward such characteristics. It probably has to alter its work to a greater degree than the commercial banks. By the way, when we toured the various departments of the Bank of France, together with Professor A. Kudryavtsev, after that seminar, everywhere we went we got the same answer to a previously prepared question: "What is the main task of the bank? Naturally, price stability in the country and stability of the franc exchange rate in the world." That is what our Central Bank should mainly concern itself with as well.

Finally, what if the commercial banks do not work toward elimination of the crisis? F. Roosevelt found himself in that position after assuming the post of United

States President. He then informed the country in a radio talk that he is thinking about nationalization of the banks. That worked. Therefore such a move is also available. It seems to me, however, that it would be easier to improve the work of the Central Bank and for that purpose it is necessary to pick knowledgeable and skilled people.

*Law 'On Fundamentals of Social Services for RF Population,' Plus Commentary

964E0360A Moscow ROSSIYSKAYA GAZETA in Russian 19 Dec 95 p 3

[Russian Federation Federal Law No 195-FL on the Fundamentals of Providing Social Services to the Russian Federation Population, Moscow, 10 Dec 95; passed by the State Duma 15 Nov 95; Commentary by Lyubov Volkova: "Our Commentary: There Will Be No Homeless Life"]

[FBIS Translated Text] This federal law, in conformity with the Russian Federation [RF] Constitution and universally recognized principles and norms of international law, shall establish the fundamentals of legal regulation in the area of the providing of social services to the population in the RF.

Section I. General Provisions

Article 1. Providing Social Services

The providing of social services shall be the activities of the social service agencies for social support, for the rendering of socio-personal, socio-medical, psychological-pedagogical and socio-legal services and material assistance and for the conducting of the social adaptation and rehabilitation of citizens in a difficult living situation.

Article 2. RF Legislation on Providing Social Services

The RF legislation on providing social services shall consist of this federal law, other federal laws and other standard legal acts of the RF, as well as the laws and other standard legal acts of RF components.

Article 3. Basic Concepts

The following basic concepts are used in this federal law:

1) social service agencies — enterprises and institutions, regardless of the forms of ownership, which furnish social services, as well as citizens engaged in entrepreneurial activities to provide social services to the population without the formation of a legal person;

2) the client of a social service agency — a citizen in a difficult living situation, to whom social services are furnished in connection with this;

3) social services — activities for the rendering of the assistance stipulated by this federal law to a client of a social service agency;

4) a difficult living situation — a situation which objectively impairs the vital activities of a citizen (disability, inability to care for one's self in connection with extreme old age, illness, orphanhood, neglect, low income, unemployment, the lack of a specific place of residence, conflicts and cruel treatment within the family, solitary living and the like) and which he cannot overcome without assistance.

Article 4. Social Service Agency Systems

1) The state system of social service agencies is a system which consists of both state enterprises and institutions for the providing of social services, which are under federal ownership and under the jurisdiction of federal organs of state authority, and also state enterprises and institutions for the providing of social services, which are under the ownership of RF components and under the jurisdiction of organs of state authority of RF components.

2. The municipal system of social service agencies includes municipal enterprises and institutions for the providing of social services, which are under the jurisdiction of organs of local self-government.

3. The providing of social services shall also be implemented by enterprises and institutions under other forms of ownership and by citizens engaged in entrepreneurial activities to provide social services to the population without the formation of a legal person.

4. The state shall support and encourage the development of social service agencies, regardless of the forms of ownership.

Article 5. Principles of Providing Social Services

The providing of social services shall be based on the principles of:

1) specific targeting;

2) accessibility;

3) voluntary participation;

4) humaneness;

5) priority in the furnishing of social services to minors in a difficult living situation;

6) confidentiality;

7) and a prevention orientation.

Article 6. State Standards for the Providing of Social Services

1. The providing of social services should conform to the state standards which establish the basic requirements for the amounts and quality of the social services and for the procedure and conditions for their rendering.

2. The state standards for the providing of social services shall be approved by the RF Government.

3. The requirements established by the state standards shall be binding on the social service agencies, regardless of the forms of ownership, on the entire territory of the RF.

Section II. Ensuring the Right of Citizens to Social Services

Article 7. The Right of Citizens to Social Services

1. The state shall guarantee to citizens the right to social services within the state system of social service agencies with respect to the basic types specified by this federal law.

2. The providing of social services shall be implemented on the basis of the appeal of a citizen, his guardian, trustee, other legal representative, organ of state authority, organ of local self-government, or public association.

3. Each citizen shall have the right to obtain within the state system of social service agencies free information about the opportunities for, types of, procedure for and conditions of the provision of social services.

4. Foreign citizens and persons without citizenship shall enjoy in the RF the same right to social services as citizens of the RF, unless otherwise established by international agreements of the RF.

Article 8. Material Assistance

1. Material assistance shall be furnished to citizens in a difficult living situation in the form of money, foodstuffs, means for sanitation and hygiene, means for child care, clothing, footwear and other basic necessities, and fuel, as well as special means of transport and equipment for the rehabilitation of disabled persons and persons in need of permanent care.

2. The grounds and procedure for furnishing material assistance shall be established by the organs of executive authority of RF components.

Article 9. Providing In-Home Social Services

1. The providing of in-home social services shall be implemented through the furnishing of social services to citizens in need of permanent or temporary mobile provision of social services.

2. Single citizens and citizens who have partially lost the ability to care for themselves in connection with extreme old age, illness or disability shall be furnished assistance in the home in the form of socio-personal and socio-medical services and other assistance.

Article 10. Providing Social Services in Permanent Institutions

The providing of social services in permanent social service institutions shall be implemented through the furnishing of social services to citizens, who have partially or completely lost the ability to care for themselves and are in need of permanent assisted care, and shall ensure the creation of vital activity conditions which correspond to their age and state of health, the conducting of measures of a medical, psychological and social nature, feeding and care, as well as the organization of capability-based work activities, rest and leisure time.

Article 11. Furnishing Temporary Shelter

Temporary shelter in a specialized social service institution shall be furnished to orphaned children, children who are left without the care of parents, neglected minors, children who have found themselves in a difficult living situation, citizens without a specific place of residence and specific work, citizens who are victims of physical or psychological violence, natural disasters or are suffering as a result of armed and interethnic conflicts, and other clients of social service agencies, who need to be furnished with temporary shelter.

Article 12. Organization of Daytime Stay in Social Service Institutions

Socio-personal, socio-medical and other services which maintain the ability for self-care and active movement shall be furnished in the daytime in social service institutions to citizens of extreme old age and to disabled persons, as well as to other persons, including minors who are in a difficult living situation.

Article 13. Consultation Assistance

Consultations on questions of socio-personal and socio-medical support of vital activities , psychological-pedagogical assistance and socio-legal protection shall be furnished to clients of a social service agency in social service institutions.

Article 14. Rehabilitation Services

The social service agencies shall render assistance in vocational, social and psychological rehabilitation to disabled persons, to persons with limited capabilities, to minor lawbreakers and to other persons who have fallen into a difficult living situation and are in need of rehabilitation services.

Article 15. Payment for the Providing of Social Services

1. The providing of social services shall be implemented by the social service agencies free of charge and for payment.

2. The providing of free social services within the state system of social service agencies shall be implemented on the grounds stipulated by Article 16 of this federal law. The procedure for furnishing free social services shall be determined by the RF Government.

3. Paid social services within the state system of social service agencies shall be rendered under the procedure established by the RF Government.

4. The conditions and procedure for payment for social services in the social service agencies of other forms of ownership shall be established by them on their own.

Article 16. Grounds for Free Social Services Within the State System of Social Service Agencies

1. Free social services within the state system of social service agencies in the amounts specified by the state standards for providing social services shall be furnished:

1) to citizens not capable of taking care of themselves in connection with extreme old age, illness or disability, who do not have relatives who can provide them with assistance and care — if the average per capita income of these citizens is below the subsistence minimum established for the region in which they live;

2) to citizens who are in a difficult living situation in connection with unemployment, natural disasters or catastrophes or who are suffering as a result of armed or interethnic conflicts;

3) to minor children who are in a difficult living situation.

2. Additional grounds for the furnishing of free social services shall be established by the organs of executive authority of RF components.

Section III. Organization of the Providing of Social Services

Article 17. Institutions and Enterprises for the Providing of Social Services

1. The social service institutions, regardless of the forms of ownership, shall be:

1) integrated centers for providing social services to the population;

2) territorial centers for social assistance to families and children;

3) centers for the providing of social services;

4) social rehabilitation centers for minors;

5) centers for assisting children who are left without the care of parents;

6) social shelters for children and teenagers;

7) centers for psychological-pedagogical assistance to the population;

8) centers for emergency psychological assistance over the telephone;

9) centers (divisions) for social assistance in the home;

10) overnight shelters;

11) special homes for single elderly persons;

12) permanent social service institutions (boarding homes for elderly persons and disabled persons, psychoneurological boarding houses, children's boarding homes for mentally handicapped children and boarding homes for children with physical deformities);

13) gerontological centers;

14) other institutions which furnish social services.

2. Social service enterprises shall include enterprises which render social services to the population.

3. The procedure for the establishment, activities, reorganization and elimination of institutions and enterprises for the providing of social services, regardless of the forms of ownership, shall be regulated by the civil legislation of the RF.

Article 18. Licensing in the Area of the Providing of Social Services

The activities of social service agencies (with the exception of state and municipal social service institutions), as well as of citizens engaged in entrepreneurial activities to provide social services to the population without the formation of a legal person, shall be implemented on the basis of a license issued by the organs of executive authority of RF components under the procedure established by the RF Government.

Article 19. Administration of the Providing of Social Services

1. The administration of the state system of social service agencies shall be implemented by the federal organs of executive authority and the organs of executive authority of RF components in accordance with their authority.

2. The administration of the municipal system of social service agencies shall be implemented by the organs of local self-government in accordance with their authority.

3. The administration of social service agencies of other forms of ownership shall be implemented under the procedure specified by their charters or other constituent documents.

4. Coordination of the activities of and scientific and methodical support of the social service agencies shall be implemented under the procedure specified by the RF Government.

Section IV. The Authority of the Federal Organs of State Authority and the Organs of State Authority of RF Components in the Area of the Providing of Social Services

Article 20. The Authority of the Federal Organs of State Authority in the Area of the Providing of Social Services

The authority of the federal organs of state authority shall include:

1) the establishment of the fundamentals of federal policy in the area of the providing of social services;

2) the adoption of federal laws in the area of the providing of social services and monitoring of their execution;

3) the development, funding and implementation of federal programs for the providing of social services;

4) the determination of the structure of the federal organs for the administration of the state system for the providing of social services and the organization of their activities;

5) the establishment of the procedure for the coordination of the activities of and the methodical support of the social service agencies;

6) the licensing of activities for the providing of social services;

7) the development and adoption of state standards for the providing of social services and the monitoring and oversight of their observance;

8) the establishment of a unified federal system for statistical records and reporting in the area of the providing of social services;

9) the establishment, administration and support of the activities of social service institutions which are under federal ownership;

10) the organization and coordination of scientific research in the area of the providing of social services;

11) the development of international cooperation in the area of the providing of social services.

Article 21. The Authority of the Organs of State Authority of RF Components in the Area of the Providing of Social Services

The organs of state authority of RF components outside the authority of the RF organs of state authority, stipulated by this federal law, shall implement their own legal regulation of the providing of social services to the population.

Section V. Resource Support for the Providing of Social Services

Article 22. Material Support for the Social Service Agencies

The social service agencies, under the procedure established by RF legislation, shall be provided with plots of land and property necessary for the fulfillment of the tasks required by their charters.

Article 23. Financial Support for Social Service Institutions

1. The funding of state social service institutions which are under federal ownership and under the jurisdiction of the federal organs of state authority shall be carried out using federal budget funds. The funding of state social service institutions which are under the ownership of RF components and under their jurisdiction shall be carried out using funds from the RF components' budgets.

2. The funding of social service agencies of other forms of ownership shall be implemented from the sources stipulated by their charters or other constituent documents.

3. Additional extra-budgetary sources of funding shall be: money received from special-purpose social funds; bank credits and the money of other creditors; revenues from the entrepreneurial activities of social service institutions; revenues from securities; money received as payments for social services; charitable contributions and donations; and other sources not prohibited by law.

4. Social service institutions, regardless of the forms of ownership, shall enjoy preferential taxation under the procedure established by RF legislation on taxation.

5. Banks, enterprises, organizations, institutions and natural persons which direct material, financial and intellectual valuables in the form of investments into the social service agencies and which render to them various services and other support shall enjoy the benefits established by RF legislation.

Article 24. The Entrepreneurial Activities of Social Service Institutions

1. In accordance with RF legislation, social service institutions shall have the right to carry out entrepreneurial activities only to the extent that this serves the attainment of the goals, for which they were established.

2. The entrepreneurial activities of social service institutions shall be subject to preferential taxation under the procedure established by RF legislation.

Article 25. Personnel Support for Social Service Agencies

1. The effectiveness of the activities of the social service agencies shall be ensured by specialists who have a professional education, which meets the requirements and nature of the work to be performed, and experience working in the area of the providing of social services and are inclined on the basis of their own personal qualities toward the rendering of social services.

2. The guarantees and benefits for workers of the state system of social service agencies shall be determined by the RF organs of state authority and the organs of state authority of RF components in accordance with their authority.

3. Medical workers of the state system of social service agencies, who are directly engaged in providing socio-medical services, shall enjoy benefits under the procedure and on the terms stipulated by RF legislation for medical workers of state health care institutions.

4. The benefits stipulated by RF legislation for pedagogical personnel of educational institutions for orphaned children and children who have been left without the care of parents and of special teaching and educational institutions for minors shall be extended to workers of social service institutions of the state system of social service agencies, who are directly carrying out the social rehabilitation of minors.

5. The guarantees and benefits for workers of social service agencies of other forms of ownership shall be established by their founders on their own on a contractual basis.

Section VI. Concluding Provisions

Article 26. Responsibility for a Violation of This Federal Law

The responsibility of persons engaged in the area of the providing of social services, if their actions (inaction) entailed consequences which were dangerous to the life and health of a client of a social service agency or other violation of his rights, shall ensue under the procedure and on the grounds stipulated by RF legislation.

Article 27. Appealing the Actions (Inaction) of Social Service Agencies

The actions (inaction) of social service agencies may be appealed by a citizen, his guardian, trustee or other legal representative to the organs of state authority, the organs of local self-government or the court.

Article 28. Effective Date of This Federal Law

This federal law shall go into effect as of the day of its official publication.

[Signed] RF President B. Yeltsin, Moscow, the Kremlin.

Our Commentary: There Will Be No Homeless Life

In the mornings, loud discussions begin at the door of my neighbor. Marya Antonovna is 94 years old, she is hard of hearing and, in addition, is afraid of everything. This is why the door is never unlocked until all the necessary questions have been asked and, this is the main thing, until convincing answers to them are heard. But the morning female visitor, weighted down with household bags, no matter how difficult it is to come to an understanding with the elderly hostess, stands patiently at the door, not for a minute breaking into an exasperated tone, and is always affable and cheerful.

Her job is that of a social worker. There are already around 2,000 of them in Moscow. In any kind of bad weather, they come knocking on the doors to the apartments of single elderly persons, to whom they have been assigned. They are unique "Timurians" [good samaritans]. They call on these wards of theirs and do their errands: they run to the stores, the drugstore, the polyclinic and the post office — to get the mail and to pay for municipal services. They call the doctor, if need be. They accompany their infirm patients to the polyclinic for treatments.

This form of providing social services to single elderly persons who do not want to move to boarding homes for the elderly and the disabled was introduced in the capital city several years ago.

Yet another social innovation began to be implemented here recently. In one of Moscow's new microrayons — in Mitino — a 14-story residential building has been constructed. Old persons will live by themselves in it in individual apartments with all the conveniences. And various service agencies have been located on the first floor in order to provide services to them. Several dozen of these social workers, who currently go to different Moscow addresses, will now be concentrated in a single building. All their wards will have to do is to pick up the phone receiver and make a request to a dispatcher for a required service. There, on the building's first floor, are repair shops, a medical center, a gymnasium and even a 300-seat concert hall.

This is Russia's first building for the providing of social services on an in-house basis, which was conceived of by State Unitary Enterprise Mossotsgarantiya [Moscow social guarantee] of the Moscow government's Social Protection Committee. Single pensioners older than 65, who wish to surrender their own apartments to the city in exchange for lifetime social services plus an additional pension, can live in the in-house social services building.

These and other new forms for the providing of social services emerged as a valuable initiative of local authorities. As of the end of the eighties and at the beginning of the nineties, the social service agency began to be established, essentially a new sector in the country. The Federal Law on the Fundamentals of Providing Social Services to the RF Population consolidates legally the bases for the formation of the new sector for the providing of social services to the population as one of the directions of the state's activities for the protection of Russia's citizens.

Social Security Minister Lyudmila Bezlepkina, in commenting on the draft law, said: "The RF Constitution (Article 7) has declared that Russia is a social state, the policy of which is directed toward the creation of conditions which provide a fitting life for and the free development of a person, state support for the family, motherhood, fatherhood and childhood, disabled persons and elderly cititzens, and the development of a system of social service agencies. Among those who need social services are families with many children, incomplete families, families in which disabled persons, single persons and elderly persons live, families with an adverse psychological microclimate, orphaned children, children with asocial behavior, unemployed persons, persons without a specific place of residence, graduates of children's homes and a number of other persons."

The law creates a legal basis for various types of social service institutions.

Social services are currently being rendered not only by institutions of the RF Ministry of Social Security, but also by education and health care organs and employment services. The market is also entering this sphere, so that non-state social service agencies are also operating here now. They are being established by public, charitable and religious organizations and private persons.

It is clear that, on the whole, the system for providing social services to the population is just beginning to take shape. Violations of a person's rights and various swindles are possible here. Further development is impossible without legal regulation of the activities of these social service agencies. It is especially important to protect people, in particular, during the deciding of their apartment-related matters.

State meddling is also necessary in certain other situations. For example, the emergence of private homes for the elderly, although it is a matter which is personal and voluntary both for their founders and for the patients, nevertheless, helpless people may find themselves in the hands of unscrupulous operators who fleece them and do not want to bear the expenses for the further maintenance of the elderly persons. And quite a few such situations may arise under the immature market conditions. This is why a number of measures are being introduced, which are called upon to provide protection for citizens who have found themselves in a difficult living situation.

As was told to us in the Minsotszashchity RF [RF Ministry of Social Security], the law's implementation is expected to take a long period of time, over the course of which, an optimum network of institutions and enterprises for providing social services to the population should be established.

The funding of the social service institutions is being carried out basically using the budgets of RF components and local budgets with due consideration of their financial capabilities. It is being asserted at the same time that the implementation of this law will not entail the special allocation of financial assets and a revision of the budgets of all levels and will also not require the insertion of changes and amendments into existing legislation.

*Implications of Law on Output Sharing Assessed

964E0445A Moscow NEZAVISIMAYA GAZETA in Russian 28 Dec 95 p 4

[Article by Yu. Boldyrev: "It Is Important Not To Frighten Foreigners and Confuse Ourselves: The Mysterious Fate of the Law on Output Sharing Agreements"]

[FBIS Translated Text] The battle around the law on agreements concerning output sharing, which is a key factor not only in the fate of our largest mineral deposits but also in the development of domestic industry, went on for almost six months. I remember that in June the Duma adopted the law, worked out by Yabloko, but the Federation Council did not go along with it, rejecting it outright on 3 October, despite the strong pressure that was applied by the executive branch. At the same time there was a struggle going on inside Yabloko as well which led to my withdrawal from that movement in September. Following the law on the Central Bank, this law became the straw that broke the camel's back.

Almost a month after the rejection of that law we attempted to create a conciliatory commission resulting in red tape involved in the submission of the issue for study by the Duma, and then without any discussion four attempts were made to override the veto of the Federation Council. As it was with the law on the Central Bank, which was also pushed through without discussion by a representative of Yabloko, the main goal was not to allow discussion of our remarks. When it became clear that the majority of members of the conciliatory commission from the Duma were in agreement with a number of our remarks, a desperate step was taken in the form of a proposal by the Yabloko leader to vote on overriding the veto for the fifth time, using the "ineffectiveness" of the conciliatory commission as the reason.

The commission has now completed its work and the new version of the law was passed by the Duma on 6 December, and on 19 December it was approved by the Federation Council.

What Were We Able To Add?

We worked to include mechanisms for attracting investments in the domestic economy which would not allow the squandering of Russian minerals in the law determining the fate of Russian property worth hundreds of billions of dollars, while preventing discrimination against domestic manufacturers of equipment, and ensuring control by the government over the conclusion and realization of large-scale transactions so as to avoid corruption and losses of material and financial resources. Certain changes were made in the law, by contrast with its previous version, which entail:

Prohibiting organs of executive power from arbitrarily deviating from Russian laws in the conclusion of agreements with foreign investors, which was freely allowed in the Yabloko version.

Legislative regulation of their participation in agreements by the subjects of the Federation themselves, that is, by their legislative organs, naturally within the limits of their constitutional powers;

The adoption by law of a list of mineral fields, the development of which is permitted on the basis of agreements on output sharing so as to include only those fields that involve particularly high commercial risks, require major investments, etc.;

Limitation of noncompetitive granting of mining rights; Restriction of arbitrary transfers of rights obtained from the government to second parties, including mortgaging, which corresponds with the provisions of the Civil Code of the Russian Federation;

The possibility of amending conditions of the agreements on the demand of one of the parties in case of an important unforeseen change in circumstances (in accordance with recognized world practice and the Civil Code of the Russian Federation);

Government control over observance of the provisions of agreements, not only by executive organs of power, as indicated in the Yabloko version, but by the representative branch as well;

A procedure for the introduction of decisions on dissolution of the agreement or amendment of its provisions, similar to that involved in the introduction of the agreement itself;

The exclusion of provisions in the law leading to discrimination against Russian manufacturers of technological equipment;

The obligation of the parties to stipulate in agreements that not less than a certain share of technological equipment to be used, paid by our compensational oil, must be manufactured on the territory of Russia. I stress: Not in "our plants" but on our territory, so that jobs, taxes, and payments into pension and other social funds remain in Russia and not flow outside its borders. Specific interest rates are, naturally, not stipulated by the law for all cases but one of the most important requirements concerning the agreements is formulated;

The mandatory nature of payments into pension and other social funds of the Russian Federation, whereas in the Yabloko version that was dependent on various collective agreements;

The exclusion of any provisions of the law allowing the exportation of any products without customs and tariff or quantitative restrictions to the detriment of other exporters and international obligations of the Russian Federation;

The adoption of conditions by law for large-scale projects, particularly on the continental shelf and in special economic zones, as well as all agreements concluded without the procedure involving competition.

What Is Good and What Is Bad?

Has the law been made worse, as indicated by Yabloko representatives, who declare that they are hoping for a presidential veto (THE MOSCOW TIMES, 20 December 1995)? Is it really so, as asserted by IZVESTIYA of 22 December, that these amendments "void civilized ideas incorporated in this document?" I hope that representatives of business circles as well as ordinary citizens will be able to sort this out.

It is indicative that the minister of fuel and power engineering spoke to the conciliatory commission indicating that he is opposed to our amendments, wishing to have his hands free, but when the new version of the law was adopted, he agreed that even in such a complex form, this law nevertheless should still be approved.

While the last version was literally dragged through the Federation Council some four times just in the plenary sessions (!)—all without results, the new version was adopted right away: 113 votes for and only three against. And those who were opposed included some who considered the compromise made by us as being too dangerous—the consent to place into effect agreements that have already been signed by the government.

Last Chance To Find Procedural Violations

After the adoption of the law, discussions began about the "illegitimacy of the procedure" and even falsifications of the results produced by the commission.

The only problem in the work of the commission pertained to the quorum under conditions created by the election campaign: voting on amendments is based on the total number of those listed and not on the number of those present and participating in the discussion.

The commission included 12 persons from the Duma. In the minutes of the session, amendments getting fewer than seven votes are designated as not having been adopted. One of the members of the commission failed to attend a single session! The faction offered to recall him, and he gave his consent to having his vote disregarded. In that case, amendments that garner six votes from the Duma side are passing.

Therefore the version of the law proposed to Duma deputies also included those amendments that received six votes as having passed. This was clearly explained before the start of voting from the tribune by Adrian Puzanovskiy, representative of the Duma side, and then by me, representing the Federation Council side. In addition to that, we proposed from the tribune that deputies vote for the law with consideration of not only those amendments that were coordinated between the two sides, but also supporting those amendments that were supported by the Duma side, even though they did not receive a formal majority on the Federation Council side. It was precisely in that version that the law was submitted to the vote, as may be verified by anyone interested by looking in the shorthand record. Assertions by Yabloko representatives regarding falsifications and also that the deputies did not know what they were voting for, and that the law was adopted "illegitimately," which should frighten away foreign investors and earn a presidential veto, are absolutely false.

In my report to the Federation Council I dwelt especially on the content of key amendments and procedural nuances in the adoption of the law in the Duma, so that no one could say that anything had been concealed. The result is known: 113 to three.

Something Sad

The saddest thing to me in this entire affair is the behavior of the Yabloko association—the elaborators of the law. Its unbending position with regard to remarks that were recognized even by the Duma side, attempts to disrupt the work of the commission, including demands of the leader for a Duma vote to override the Federation Council veto, when it was already at work; voting by the entire faction against the amended version (with the exception of only Petr Shelishch, who took an independent and an honest position in the commission); active participation in the disinformation campaign described above; and finally, the attempt of underhandedly submitting the version of the law that was not voted on to Rybkin for signature after the vote in the Duma.

The voters, of course, could not have known all that, and it is difficult to check. To me, however, that is confirmation of the former conclusions with regard to the evolution of this force, which compelled my withdrawal from Yabloko in September, and involving important differences between the goals and methods that are declared, on the one hand, and the actual ones, on the other hand.

Will the President Sign the Law?

I hope that what will triumph is not the momentary interests of certain companies and the politicians representing them, with their personal preferences, but common sense and responsibility, as we have already indicated, using the positions held by the leader of the Ministry of Fuel and Power Engineering as an example.

If, however, forces favoring the former version of the draft law succeed in preventing the signing of the new version of the law by the president—it will be the best possible indicator of their true initial intentions, while demonstrating what the law was really prepared for the attraction of conscientious investors, because the new version of the law contains the mechanisms and guarantees required for that, and not yet again for the distribution of tasty morsels to their own, which the amended law prevents.

*Federal Law on Joint-Stock Companies

964E0407A Moscow ROSSIYSKAYA GAZETA in Russian 29 Dec 95 pp 1, 3-7

[Text of Federal Law: "On Joint Stock Companies," adopted by the State Duma on 24 November 1995 and signed by President of the Russian Federation B. Yeltsin on 26 December 1995 in Moscow, No 208-FZ]

[FBIS Translated Text]

The most promising law of the passing year...

On the eve of the new year, the President of the RF [Russian Federation] signed the federal law, "On Joint-Stock Companies." The new document extends its influence to all joint-stock companies of the Russian Federation, currently active as well as newly created. For them it is a unique alphabet which regulates their entire way of life and activity, from "A" to "Z". The law becomes effective as of 1 January 1996.

FEDERAL LAW ON JOINT STOCK COMPANIES

Adopted by the State Duma on 24 November 1995

Chapter I. GENERAL PRINCIPLES

Article 1. Sphere of application of the present federal law

1. In accordance with the Civil Code of the Russian Federation, the present federal law defines the procedure of creation and legal status of joint-stock companies, the rights and responsibilities of their shareholders, and also ensures protection of the rights and interests of the shareholders.

2. The present federal law applies to all joint-stock companies created or being created on the territory of the Russian Federation, unless otherwise specified by the present federal law and other federal laws.

3. The peculiarities of creation and legal status of joint-stock companies in the spheres of banking, investment and insurance activity are defined by the federal laws.

4. The peculiarities of creation and legal status of joint-stock companies created on the basis of kolkhozes, sovkhozes and other agricultural enterprises which have been re-organized in accordance with the Edict of the President of the Russian Federation dated 27 December 1991, No 323, "On Immediate Measures for Implementing Land Reform in the RSFSR," as well as peasant (individual) farms, support and service enterprises for agricultural producers, and specifically enterprises for material-technical supply, repair-technical enterprises, enterprises for agricultural chemistry, timber managements, construction inter-farm organizations, rural power supply enterprises, seed-growing stations, flax plants, and enterprises for processing vegetables—are defined by the federal laws.

5. The peculiarities of creation and legal status of joint-stock companies through privatization of state and municipal enterprises are defined by the legal statutes of the Russian Federation on privatization of the indicated enterprises.

The peculiarities of legal status of joint-stock companies created through privatization of state and municipal enterprises are effective from the moment of adoption of the decision on privatization to the moment of cession by the state or municipal formation of 75 percent of the shares belonging to it in such a joint-stock company, but no later than the end of the term of privatization defined by the plan for privatization of the given enterprise.

Article 2. Legal status of joint-stock company

1. A joint-stock company (henceforth referred to as company) is recognized to be a commercial organization whose statutory capital is divided up into a definite number of shares which certify the obligatory rights of the participants in the company (shareholders) in regard to the company.

Shareholders are not answerable for the liabilities of the company and bear risk of losses associated with its activity only within the limits of the value of the shares belonging to them.

Shareholders who have not fully paid for their shares bear joint liability for the obligations of the company within the limits of the unpaid portion of the value of the shares belonging to them.

2. A company is a legal entity and has holds in its ownership generalized property which is accounted on its individual balance sheet. It may acquire and exercise property and personal non-property rights in its name, bear liability, and act as a claimant and defendant in court.

3. A company has civil rights and bears responsibilities necessary for implementing any types of activity not prohibited by federal laws.

A company may engage in certain types of activity, the list of which is defined by federal laws, only on the basis of a special permit (license). If the conditions for granting the special permit (license) to engage in a certain type of activity makes provision for the requirement to engage in such activity exclusively, then within the term of effectiveness of the special permit (license) the company does not have the right to perform other types of activity, with the exception of types of activity specified by the special permit (license) and those accompanying them.

4. A company is considered to be created as a legal entity from the moment of its state registration in accordance with the procedure established by federal laws. A company is created without limitation of term, unless otherwise specified by its charter.

5. A company has the right to open bank accounts on the territory of the Russian Federation and outside its boundaries, in accordance with the established procedure.

6. A company must have a round seal which contains its full firm name, written in the Russian language, and indication of its place of location. The seal may also indicate the company's firm name in any foreign language or language of peoples of the Russian Federation.

A company has the right to have stamps and blank forms with its name, its own emblem, as well as a trademark registered in accordance with the established procedure and other means of visual identification.

Article 3. Liability of company

1. A company bears liability for its obligations with all the property belonging to it.

2. A company does not answer for the liabilities of its shareholders.

3. If insolvency (bankruptcy) of a company is caused by actions (inaction) of its shareholders or other persons who have the right to give instructions mandatory for the company, or who by some other means have the ability to determine its activity, in the case of insufficiency of property of the company, subsidiary responsibility for its liabilities may be imposed upon the indicated shareholders or other persons.

Insolvency (bankruptcy) of a company is considered to be caused by the actions (inaction) of its shareholders or other persons who have the right to give instructions mandatory for the company or who in some other way have the opportunity to determine its actions, only in the case if they have exercised the indicated right and (or) capacity for purposes of performance of an action by the company, knowing ahead of time that they would inflict insolvency (bankruptcy) upon the company as a result.

4. The state and its agencies do not bear liability for the obligations of a company, just as the company does not answer for the obligations of the state and its agencies.

Article 4. Name and place of location of a company

1. A company has its firm name, which must contain an indication of its organizational-legal form and type (open or closed).

A company has the right to have a full and abbreviated name in the Russian language, foreign languages, and languages of the peoples of the Russian Federation.

A company whose firm name is registered in accordance with the procedure established by the legal statutes of the Russian Federation has the exclusive right to its use.

2. The place of location of a company is determined by the place of its state registration, unless otherwise established in the company charter, in accordance with the federal laws.

3. A company must have a postal address, through which communication may be conducted with it, and is obligated to notify the organs of state registration of legal entities of change in its postal address.

Article 5. Affiliates (branches) and representations of a company

1. A company may create branches and open representations on the territory of the Russian Federation, with adherence to the requirements of the present federal law and other federal laws.

The creation of branches by a company and the opening of representations outside the limits of the territory of the Russian Federation is also performed in accordance with the legislation of the foreign state at the place of location of the branches and representations, unless otherwise specified by international treaty of the Russian Federation.

2. A branch of a company is its separate subdivision located outside the place of location of the company and fulfilling all its functions, including the functions of representation, or a portion thereof.

3. A representation of a company is its separate subdivision located outside the place of location of the company and representing the interests of the company and engaging in their protection.

4. Branches and representations are not legal entities, but operate on the basis of the principle approved by the company. A subsidiary and representation are granted property by the company which has created them, with such property being listed on their individual balance sheets, as well as on the balance sheet of the company.

The manager of a branch and head of a representation are appointed by the company, and act on the basis of the power of attorney issued by the company.

5. Branches and representations perform activity in the name of the companies which created them. Liability for the activity of a branch or representation is borne by the company which created them.

6. The company charter must contain information about its branches and representations. Information about a change in the company charter associated with change in information about its branches and representations is given to the organ of state registration of legal entities in the order of notification. The indicated changes in the company charter become effective for third parties from the moment of their notification.

Article 6. Subsidiary and dependent companies

1. A company may have subsidiary and dependent companies with the rights of a legal entity on the territory of the Russian Federation, created in accordance with the present federal law and other federal laws, and outside the boundaries of the territory of the Russian Federation—in accordance with the legislation of the foreign state at the place of location of the subsidiary or dependent company, unless otherwise specified by international treaty of the Russian Federation.

2. A company is recognized as a subsidiary if the other (primary) economic company (partnership), due to predominant participation in its statutory capital or in accordance with an agreement concluded between them, or by some other means, has the opportunity to determine the decisions adopted by such company.

3. A subsidiary company is not liable for the debts of the primary company (partnership).

The primary company (partnership) which has the right to give the subsidiary company instructions which are mandatory for the latter, is liable together with the subsidiary company in deals concluded by the latter in fulfillment of such instructions. The primary company (partnership) is considered to have the right to give the subsidiary company instructions which are mandatory for fulfillment only when this right is specified in the agreement with the subsidiary company or in the charter of the subsidiary company.

In the case of insolvency (bankruptcy) of the subsidiary company through the fault of the primary company (partnership), the latter bears subsidiary liability for its debts. Insolvency (bankruptcy) of a subsidiary company is considered to have occurred at the fault of the primary company (partnership) only in the case when the primary company (partnership) exercised the stated right and (or) opportunity for purposes of performance of an action by the subsidiary company, knowing ahead of time that insolvency (bankruptcy) of the subsidiary company would ensue as a result of such action.

The shareholders in a subsidiary company have the right to demand compensation from the primary company (partnership) for lossess incurred by the subsidiary company through its fault. Losses are considered to have been inflicted through the fault of the primary company (partnership) only in the case when the primary company (partnership) has exercised its right and (or) opportunity for purposes of performance of an action by the subsidiary company, knowing ahead of time that the subsidiary company would incur losses as a result of such action.

4. A company is considered dependent if another (predominant) company has more than 20 percent of the voting shares in the first company.

A company which has acquired more than 20 percent of the voting shares in a company must immediately publish information on this in accordance with the procedure defined by the Federal Commission on Securities and the Stock Market under the Russian Federation Government and the Federal Anti-Monopoly Agency.

Article 7. Open and closed companies

1. A company may be open or closed, which is reflected in its charter and firm name.

2. Shareholders in an open type company may cede the shares belonging to them without consent of other shareholders in this company. Such a company has the right to perform open subscription for the shares issued by it and to implement their unrestricted sale with consideration for the requirements of the present federal law and other legal statutes of the Russian Federation. An open company has the right to perform closed subscription for the shares issued by it, with the exception of cases when the possibility of conducting closed subscription is limited by the company's charter or by requirements of the legal statutes of the Russian Federation.

The number of shareholders in an open type company is unlimited.

3. A company whose shares are distributed only among its founders or other previously defined circle of persons is considered to be a closed company. Such a company does not have the right to perform open subscription for the shares issued by it or to offer them by some other means for acquisition by unlimited circle of persons.

The number of shareholders in a closed type company should not exceed 50.

If the number of shareholders in a closed company exceeds the limit established by the present point, the said company must re-organize into a company of the open type within the course of one year. If the number of its shareholders is not reduced to the limit established by the present point, the company is subject to liquidation in judicial order.

Shareholders in a closed company have priority right of acquisition of shares sold by other shareholders in this company, at the price at which they are offered to another person. The company charter may provide for the priority right of the company to acquisition of shares sold by its shareholders, if the shareholders have not exercised their priority right of acquisition of the shares.

The procedure and terms of exercising priority right to acquisition of shares sold by shareholders are established by the company charter. The term of exercising priority right may not be less than 30 or more than 60 days from the moment the shares are offered for sale.

4. In the cases specified by federal laws, companies whose founders are the Russian Federation, a subject of the Russian Federation or a municipal formation (with the exception of companies formed in the process of privatization of state and municipal enterprises) may only be of the open type.

Chapter II. CREATION AND LIQUIDATION OF A COMPANY

Article 8. Creation of a company

A company may be created by means of founding anew or by means of re-organization of an existing legal entity (merging, annexation, division, separation, restructuring).

A company is considered created from the moment of its state registration.

Article 9. Founding of a company

1. Creation of a company by means of founding is performed at the decision of the founders (founder). The decision on founding a company is adopted by the founders' meeting. If a company is founded by a single person, the decision on its founding is adopted by this person individually.

2. The decision on founding a company must reflect the results of voting of the founders and the decisions adopted by them on questions of founding the company, ratification of the company charter, and election of organs of management of the company.

3. The decision on founding a company, ratification of its charter and ratification of the monetary valuation of the securities, other items or property rights or other rights having monetary valuation, which are contributed by the founder as payment for shares in the company, is adopted by the founders unanimously.

4. The election of organs of management of the company is performed by the founders by a three-fourths majority of votes, which represent the shares subject to distribution among the founders.

5. The founders of a company conclude a written agreement amongst themselves regarding its creation, determining the procedure for their implementation of joint activity on founding the company, the amount of the company's statutory capital, the categories and types of shares subject to distribution among the founders, the amount and order of their payment, and the rights and responsibilities of the founders in creating the company. The agreement on creation of a company is not the founding document of the company.

6. Creation of a company with participation of foreign investors is performed in accordance with the federal laws of the Russian Federation on foreign investments.

Article 10. Founders of a company

1. The founders of a company are citizens and (or) legal entities who have adopted the decision on its founding.

State agencies and organs of local self-government may not act as founders of a company, unless otherwise specified by the federal laws.

2. The number of founders of an open company is not limited. The number of founders of a closed company may not exceed 50.

A company may not have another economic company consisting of one person as its sole founder (shareholder).

3. The founders of a company bear joint liability for the obligations associated with its creation and arising prior to state registration of the said company.

A company bears liability for the obligations of the founders associated with its creation only in the case of subsequent approval of their actions by the general meeting of shareholders.

Article 11. Company charter

1. The company charter is the founding (constituent) document of the company.

2. The requirements of the company charter are mandatory for fulfillment by all organs of the company and its shareholders.

3. The company charter must contain the following information:

—the full and abbreviated firm name of the company;

—the place of location of the company;

—the type of company (open or closed);

—the number, nominal value, categories (common, preferred) of shares of stock and types of preferred shares offered by the company;

—the rights of the shareholders—owners of the shares of each category (type);

—the amount of the company's statutory capital;

—the structure and competency of the organs of management of the company and the order of their adoption of decisions;

—the procedure of preparing for and conducting the general meeting of shareholders, including the list of questions whose resolutions are adopted by the organs of administration of the company by a qualified majority or votes, or unanimously;

—information on branches and representations of the company;

—other principle positions specified by the present federal law.

The company charter may establish limitations on the number of shares belonging to one shareholder, and on their summary nominal value, as well as on the maximal number of votes granted to a single shareholder.

The company charter may also contain other principle positions which do not contradict the present federal law or other federal laws.

4. Upon demand of the shareholders, an auditor or any interested person, the company must, within prudent times, present them the opportunity of familiarizing themselves with the company charter, including the changes and amendments to it. The company must provide the shareholder, at his demand, with a copy of the effective company charter. Payment collected by the company for provision of such copies may not exceed the expenditures for their preparation.

Article 12. Introduction of changes and amendments to the company charter and ratification of the company charter in the new edition

1. Introduction of changes and amendments into a company charter or ratification of the company charter in its new edition is performed at the decision of the general meeting of shareholders. Introduction of changes associated with reduction of the statutory capital of the company into the charter is performed on the basis of a decision on reduction of the company's statutory capital, adopted by the general meeting of shareholders.

Introduction of amendments associated with increasing the statutory capital of the company into the charter is performed on the basis of a decision on increasing the statutory capital of the company by means of increasing the nominal value of the shares or distribution of additional shares, adopted by the general meeting of shareholders or by the board of directors (supervisory council) of the company, if in accordance with the decision of the general meeting of shareholders or the company charter the latter have the right to adopt such decision, and on the basis of a decision of the board of directors (supervisory council) of the company on ratification of the results of distribution of additional shares.

Increase of the statutory capital of the company by means of distribution of additional shares is registered in the amount of the nominal value of the distributed supplemental shares. In this case, the number of announced shares of certain categories and types must be reduced by the number of distributed supplemental shares of these categories and types.

2. Introduction of changes and amendments to the company charter or ratification of the company charter in a new edition is performed at the decision of the general meeting of shareholders, approved by a three-fourths majority of votes of the shareholders who are owners of voting shares participating in the general meeting of shareholders. In the case specified in paragraph three, point 1 of the present article—on the basis of decision of the general meeting of shareholders adopted by a majority of votes of the shareholders participating in the general meeting, or by decision of the board of directors (supervisory council) of the company, adopted unanimously.

Article 13. State registration of company

A company is subject to state registration in the agency implementing state registration of legal entities, in accordance with the procedure specified by the federal law on state registration of legal entities.

In the case of state registration of a company with participation of the state or municipal formations, documents must be submitted which confirm the founders' right of ownership to the property being handed over in payment for the shares acquired by them.

Article 14. State registration of changes and amendments to a company charter or of a company charter in its new edition

1. Changes and amendments to a company charter or a company charter in a new edition are subject to state registration in accordance with the procedure specified

in Article 13 of the present federal law for registration of a company.

2. Changes and amendments to a company charter or a company charter in a new edition become effective for third parties from the moment of their state registration, and in the cases specified by the present federal law—from the moment of notification of the agency performing the state registration.

Article 15. Reorganization of company

1. A company may be voluntarily reorganized in accordance with the procedure specified by the present federal law.

Other grounds and procedure of reorganization of a company are defined by the Civil Code of the Russian Federation and other federal laws.

2. Reorganization of a company may be performed in the form of merging, annexation, division, separation and restructuring.

3. A company is considered reorganized, with the exception of cases of reorganization in the form of annexation, from the moment of state registration of the newly emerging legal entities.

In reorganization of a company by means of annexation to another company, the first of them is considered reorganized from the moment the organ of state registration enters the record of cessation of activity of the annexed company into the unified state register of legal entities.

4. State registration of companies newly emerging as a result of reorganization and recording of entry on cessation of activity of the reorganized companies are performed in accordance with the procedure established by federal laws.

5. No later than 30 days from the date of adoption of the decision on reorganization, a company must notify its creditors of this fact in written form. A creditor has the right to demand from the company the termination or early fulfillment of obligations and the compensation of losses by means of written notification within a term of:

—no later than 30 days from the date the company sends the creditor notification of reorganization in the form of merging, annexation or restructuring;

—no later than 60 days from the date the company sends the creditor notification of reorganization in the form of division or separation.

If the separation balance does not make it possible to determine the legal successor of the reorganized company, the newly emerging legal entities bear joint liability for obligations of the reorganized company to its creditors.

Article 16. Merging of companies

1. Merging of companies is recognized as the emergence of a new company by means of transferring to it all the rights and obligations of two or several companies, with termination of the latter.

2. Companies participating in a merger conclude a merger agreement, which defines the order and conditions of the merger, as well as the procedure of converting shares of each company into shares and (or) other securities of the new company. The board of directors (supervisory council) of the company presents for resolulation at the general meeting of shareholders of each company participating in the merger the questions of reorganization in the form of merger, of ratification of the merger agreement, and of ratification of the statute of transfer.

3. Ratification of the charter and election of the board of directors (supervisory council) of the newly emerging company are performed at a joint general meeting of shareholders of the companies participating in the merger. The order of voting at the joint general meeting of shareholders may be defined by the merger agreement of the companies.

4. Upon merger of companies, all the rights and responsibilities of each of them pass to the newly emerging company in accordance with the statute of transfer.

Article 17. Annexation of company

1. Annexation of a company is recognized as the termination of one or several companies, with transfer of all their rights and liabilities to another company.

2. The annexed company and the company to which it is annexed conclude an annexation agreement, which defines the order and conditions of the annexation, as well as the procedure for converting shares in the annexed company into shares and (or)other securities in the company to which annexation is being performed. The board of directors (supervisory council) of each company presents for resolution by the general assembly of shareholders of its company participating in the annexation the questions of reorganization in the form of annexation, and of ratification of the annexation agreement. The board of directors (supervisory council) of the annexed company also presents for resolution by the general meeting of shareholders the question of ratification of the statute of transfer.

3. The joint general meeting of shareholders of the indicated companies adopts the decision on introducing

changes and amendments to the charter, and in case of necessity, on other questions. The procedure of voting at the joint general meeting of shareholders is defined by the annexation agreement.

4. Upon annexation of one company to another, all rights and liabilities of the annexed company pass to the annexing company, in accordance with the statute of transfer.

Article 18. Division of company

1. Division of a company is understood to be the termination of a company, with transfer of all its rights and obligations to the newly created companies.

2. The board of directors (supervisory council) of a company reorganized in the form of division presents for resolution by the general meeting of shareholders the questions regarding the reorganization of the company in the form of division, the procedure and conditions of this reorganization, the creation of new companies and the procedure of converting shares in the reorganized company into shares and (or) other securities of the created companies.

3. The general meeting of shareholders of the company being reorganized in the form of division adopts a decision on reorganization of the company in the form of division, on creation of new companies, and on the procedure of converting shares in the reorganized company into shares and (or) other securities in the created companies. The general meeting of shareholders of each newly created company adopts the decision on ratification of its charter and election of a board of directors (supervisory council).

4. Upon division of a company, all its rights and obligations are transferred to the two or several newly created companies, in accordance with the division balance.

Article 19. Separation of company

1. Separation of a company is recognized as the creation of one or several companies, with transfer to them of part of the rights and obligations of the reorganized company, without termination of the latter.

2. The board of directors (supervisory council) of the company reorganized in the form of separation presents for resolution by the general meeting of shareholders the question of reorganization of the company in the form of separation, the procedure and conditions of implementation of the separation, the question of creation of the new company, the possibilities of converting shares in the company into shares and (or) other securities of the separated company and the order of such conversion, and the question of ratification of the division balance.

3. The general meeting of shareholders in the company reorganized in the form of separation adopts a decision on the procedure and conditions of separation, the creation of a new company, the possibilities of converting shares in the company into shares and (or) other securities in the separated company, and on the order of such conversion, as well as on ratification of the division balance.

4. In separation of one or several companies from the complement of a company, part of the rights and responsibilities of the company reorganized in the form of separation passes to each of them, in accordance with the division balance.

Article 20. Restructuring of company

1. A company has the right to restructure itself into a company with limited liability or into a production cooperative, with adherence to the requirements established by federal laws.

2. The board of directors (supervisory council) of the restructured company presents for resolution by the general meeting of shareholders the question of restructuring the company, the procedure and conditions of implementing the restructuring, and the procedure for exchanging shares in the company for investments of participants in the company with limited liability or shares of members of a production cooperative.

3. The general meeting of shareholders of the restructured company adopts a decisions on restructuring of the company, on the procedure and conditions of implementing restructuring, and on the procedure of exchanging shares in the company for investments of participants in a company with limited liability or shares of members in a production cooperative. Participants in a new legal entity created by restructuring adopt at their joint meeting the decision on ratification of its constituent documents and election (appointment) of organs of administration in accordance with the requirements of federal laws on these organizations.

4. Upon restructuring of a company, the newly emerging legal entity acquires all the rights and responsibilities of the reorganized company, in accordance with the statute of transfer.

Article 21. Liquidation of company

1. A company may be liquidated voluntarily in accordance with the procedure established by the Civil Code of the Russian Federation, with consideration of the requirements of the present federal law and the company charter. The company may be liquidated by ruling of the court on the grounds specified by the Civil Code of the Russian Federation.

Liquidation of a company entails its termination, without transfer of rights and responsibilities in the order of legal succession to other persons.

2. In the case of voluntary liquidation of a company, the board of directors (supervisory council) of the liquidated company presents for resolution by the general meeting of shareholders the question of liquidation of the company and appointment of the liquidation commission.

The general meeting of shareholders of a voluntarily liquidated company adopts the decision on liquidation of the company and appointment of a liquidation commission.

3. From the moment of appointment of the liquidation commission, all the powers and authorities on managing the affairs of the company are transferred to it. The liquidation commission acts in court in the name of the liquidated company.

4. If a shareholder in a liquidated company is the state or municipal formation, the complement of the liquidation commission includes a representative of the appropriate committee on administration of property or property fund, or the appropriate organ of local self-government. In case of failure to fulfill this requirement, the agency performing state registration of the company does not have the right to give consent for appointment of the liquidation commission.

Article 22. Procedure of liquidation of a company

1. The liquidation commission places in the press organs which publish data on registration of legal entities a notice of liquidation of the company, along with an explanation of the procedure and terms for submission of demands by its creditors. The term for submitting demands by creditors may be no less than 2 months from the date of publication of the notice of liquidation of the company.

2. If at the moment of adoption of the decision on liquidation the company has no obligations to creditors, its property is distributed among the shareholders in accordance with Article 23 of the present federal law.

3. The liquidation commission takes measures to identify creditors and collect incurred indebtedness, and also gives written notification to creditors regarding the liquidation of the company.

4. Upon completion of the term for presentation of demands by creditors, the liquidation commission compiles an interim liquidation balance, which contains information on the complement of property of the liquidated company, the demands submitted by creditors, as well as the results of their review. The interim liquidation balance is ratified by the general meeting of shareholders in cooperation with the agency performing state registration of the liquidated company.

5. If the monetary means of the liquidated company are insufficient to meet the demands of the creditors, the liquidation commission performs sale of other company property at public auctions, in accordance with the procedure established for fulfillment of judicial rulings.

6. Payments of monetary sums to creditors of a liquidated company are performed by the liquidation commission in the order of sequence established by the Civil Code of the Russian Federation, in accordance with the interim liquidation balance and beginning with the day of its ratification, with the exception of creditors of the fifth turn, to whom payments are made upon expiration of a month from the date of ratification of the interim liquidation balance.

7. After conclusion of accounting with creditors, the liquidation commission compiles a liquidation balance, which is approved by the general meeting of shareholders in cooperation with the agency performing state registration of the liquidated company.

Article 23. Distribution of property of a liquidated company among shareholders

1. The property of the company remaining after accounts have been settled with creditors is divided up by the liquidation commission among the shareholders in the following order:

—First of all, payments are made on shares which must be bought up in accordance with Article 75 of the present federal law;

—In secondary order, payment is made on dividends credited but not paid out on preferred shares of stock and the liquidation value of the preferred shares, as determined by the company charter;

—In third order, distribution is performed on property of the liquidated company among shareholders who are owners of common stock and all types of preferred stock.

2. Distribution of property at each turn is performed after distribution of the property of the preceding turn has been completed. Payment by a company of the liquidation value of preferred shares of a certain type as defined by the company charter is performed after full payment of the liquidation value on preferred shares of the preceding turn, as defined by the company charter.

If the property held by the company is insufficient to pay the dividends credited but not paid out and the liquidation value defined by the charter to all shareholders who are holders of preferred shares of one type, then the property is distributed between the shareholders who are owners of this type of preferred stock in proportion to the number of shares of this type which they hold.

Article 24. Conclusion of liquidation of a company

Liquidation of a company is considered concluded, and the company as having ceased its existence from the moment the organ of state registration makes the appropriate entry in the unified state register of legal entities.

Chapter III. STATUTORY CAPITAL OF A COMPANY. STOCKS, BONDS AND OTHER SECURITIES OF A COMPANY. NET ASSETS OF A COMPANY

Article 25. Statutory capital and stock of a company

1. The statutory capital of a company is comprised of the nominal value of the shares of stock in the company acquired by the shareholders.

The nominal value of all common stock in the company must be the same.

The statutory capital of a company determines the minimal amount of property of the company guaranteeing the interests of its creditors.

2. A company has the right to distribute common stock, as well as one or several types of preferred stock. The nominal value of distributed preferred stock must not exceed 25 percent of the company's statutory capital.

Upon founding of a company, all its shares must be distributed among the founders.

All the shares in a company are nominal (inscribed).

Article 26. Minimal statutory capital of a company

The minimal statutory capital of an open-type company must comprise no less than 1,000-times the sum of the minimal amount of the labor wage established by federal law on the date of registration of the company, and of the closed type—no less than 100-times the sum of the minimal amount of the labor wage established by federal law on the date of state registration of the company.

Article 27. Distributed and announced shares in company

1. The company charter must define the number and nominal value of shares acquired by the shareholders (distributed shares).

The company charter may define the number and nominal value of shares which the company has the right to distribute in addition to the distributed shares (announced shares).

The company charter must define the rights granted by company shares of each category (type) which it distributes. In the absence of the indicated positions in the charter, the company does not have the right to distribute additional shares of such categories (types).

The company charter may define the procedure and conditions for the company's distribution of announced shares.

2. The decision to introduce into the company charter changes and amendments associated with the principles specified in the present article regarding announced shares in the company is adopted by the general meeting of shareholders.

In case of the company's distribution of securities which are convertible to stock of a certain category (type), the number of announced shares of this category (type) must be no less than the number necesary for conversion within the period of circulation of these securities.

A company does not have the right to make decisions on limiting rights granted by shares into which securities distributed by the company may be converted without the consent of the holders of these securities.

Article 28. Increase in statutory capital of company

1. The statutory capital of a company may be increased by means of increasing the nominal value of the shares or distribution of additional shares.

2. The decision to increase the statutory capital of a company by means of increasing the nominal value of the shares and to introduce the appropriate changes into the company charter is made by the general meeting of shareholders or by the board of directors (supervisory council) of the company, if in accordance with the company charter or decision of the general meeting of shareholders the board of directors (supervisory council) of the company has the right to make such a decision.

3. Additional shares may be distributed by the company only within the limits of the number of announced shares established by the company charter.

If the resolution of the question of increasing the statutory capital by means of distribution of additional shares is within the competency of the general meeting of shareholders, then the decision on increasing the statutory capital of the company by means of distribution of additional shares may be adopted by the general meeting of shareholders simultaneously with the decision on increasing the number of announced shares.

The decision on increasing the statutory capital by means of distribution of additional shares within the limits of the number of announced shares may be adopted by the board of directors (supervisory council) of the company, if in accordance with the company charter or decision of the general meeting of shareholders it has the right to make such a decision.

The decision on increasing the statutory capital of a company by means of distributing additional shares must define the number of distributed additional shares of common stock and each type of preferred stock, within the limits of the announced shares of this category (type). It must also define the terms and conditions of their distribution, including the price of distributing the additional shares in the company to shareholders having priority right of acquisition of distributed shares in accordance with the present federal law.

4. If there is a stock packet which grants over 25 percent of the votes at the general meeting of stockholders and is secured in state or municipal ownership in accordance with the legal statutes of the Russian Federation on privatization, an increase in the statutory capital of a company by means of issuing additional shares may be performed within the period of securement only if the amount of the relative share of the state or municipal formation is retained with such increase.

Article 29. Reduction of statutory capital of company

1. The statutory capital of a company may be reduced by means of reducing the nominal value of the shares or by reducing their overall number, including by means of acquisition of part of the shares in the cases specified by the present federal law.

Reduction of the statutory capital of a company by means of acquisition and repayment of part of the shares is permitted if provision is made for such a possibility in the company charter.

A company does not have the right to reduce the statutory capital if as a result of this the amount will become less than the minimal statutory capital of the company defined in accordance with the present federal law on the date of registration of the appropriate changes in the company charter.

2. The decision on reducing the statutory capital of a company by means of reducing the nominal value of the shares or by means of acquisition of part of the shares for purposes of reducing their overall number, as well as the decision on introducing the appropriate changes into the company charter, is made by the general meeting of shareholders.

Article 30. Notification of creditors regarding reduction of the amount of statutory capital of a company

No later than 30 days from the date of adoption of the decision on reducing its statutory capital, a company shall give written notification of this fact to its creditors. The creditors have the right, no later than 30 days from the date the notification of reduction of the statutory capital of the company is sent to them, to demand from the company the termination or early fulfillment of its obligations and compensation of losses associated with this.

Article 31. Rights of shareholders who are owners of common stock in a company

1. Each common share of stock in a company grants the shareholder, its owner, an equal volume of rights.

2. Shareholders who are owners of common stock in a company may, in accordance with the present federal law and the company charter, participate in the general meeting of shareholders with the right to vote on all questions within its competency, and also have the right to receive dividends, and in case of liquidation of the company—the right to receive a part of its property.

Article 32. Rights of shareholders who are owners of preferred shares of stock in a company

1. Shareholders who are owners of preferred stock in a company do not have the right to vote at the general meeting of shareholders, unless otherwise specified by the present federal law or by company charter for the specific type of preferred stock in the company.

Preferred stock in a company of one type grants shareholders who are their owners an equal volume of rights and have equal nominal value.

2. The company charter must define the amount of the dividend and (or) the value paid out upon liquidation of the company (liquidation value) on preferred stock of each type. The amount of the dividend and the liquidation value are determined in a fixed monetary sum or in percent of the nominal value of the preferred shares of stock. The amount of the dividend and the liquidation value on preferred stock are considered to be defined in the same way if the company charter establishes the order of their determination. Owners of preferred stock on which the amount of the dividend has not been determined have the right to receive dividends on an equal basis with the owners of common stock.

If the company charter provides for preferred stock of two or more types, the company charter must also establish the sequence of payment of dividends and liquidation value for each type of preferred stock.

The company charter may establish that the unpaid or not fully paid dividend on preferred stock of a certain type, the amount of which is defined in the charter, accumulates and is paid out subsequently (cumulative preferred stock).

The company charter may also define the possibility and conditions of conversion of preferred stock of a certain type into common stock or preferred stock of other types.

3. Shareholders who are owners of preferred stock participate in the general meeting of shareholders with the right to vote in resolving questions on reorganization and liquidation of the company. Shareholders who are owners of preferred stock of a certain type acquire the right to vote in resolving questions of introducing changes and amendments into the company charter which limit the rights of shareholders who are owners of this type of preferred stock, including cases of defining or increasing the amount of the dividend and (or) determining or increasing the liquidation value paid on preferred stock of the preceding turn, and also defining priorities in turn of payment of dividends and (or) liquidation value of shares to shareholders who are owners of other types of preferred stock.

4. Shareholders who are owners of preferred stock of a certain type, whose amount of dividend is defined in the company charter, with the exception of shareholders who are owners of cumulative preferred stock, have the right to participate in the general meeting of shareholders with the right to vote on all questions of its competency, beginning with the meeting following the annual general meeting of shareholders at which the decision on payment of dividends was not adopted or the decision on partial payment of dividends on preferred stock of this type was adopted. The right of shareholders who are owners of preferred stock of this type to participate in the general meeting of shareholders ceases from the moment of the first payment of dividends in their full amount on the indicated shares of stock.

Shareholders who are owners of cumulative preferred stock of a certain type have the right to participate in the general meeting of shareholders with the right to vote on all questions of its competency, beginning with the meeting following the annual general meeting of shareholders at which the decision on payment of the accrued dividends on these shares in their full amount should have been adopted, if such decision was not adopted or if a decision on partial payment of dividends was adopted. The right of shareholders who are owners of cumulative preferred stock of a certain type to participate in the general meeting of shareholders ceases from the moment of payment of all dividends accumulated on the indicated shares in their full volume.

5. The company charter may provide for the right to vote for preferred stock of a certain type, if the company charter makes provision for the possibility of conversion of stock of this type into common stock. Moreover, the holder of such preferred stock possesses a number of votes which does not exceed the number of votes on common stock, to which the preferred stock belonging to him may be converted.

Article 33. Bonds and other company securities

1. A company has the right, in accordance with its charter, to distribute bonds and other securities as specified by the legal statutes of the Russian Federation on securities.

2. The distribution of bonds and other securities by a company is performed at the decision of the board of directors (supervisory council) of the company, unless otherwise specified by the company charter.

3. A company has the right to issue bonds. A bond certifies the right of its bearer to demand repayment of the bond (payment of the nominal value or nominal value plus interest) within the established times.

The decision to issue bonds must define the form, terms and other conditions of repayment of the bonds.

A bond must have a nominal value. The nominal value of all bonds issued by a company must not exceed the amount of the statutory capital of the company or the amount of provision granted to the company by third persons for the purpose of issuance of the bonds. The issuance of bonds by a company is permitted after full payment of the company's statutory capital.

A company may issue bonds with one-time term of repayment or bonds with a term of repayment in series with specific terms.

Repayment of bonds may be performed in monetary form or by other property in accordance with the decision on their issuance.

A company has the right to issue bonds secured by deposit of certain property of the company, or bonds under securement granted to the company for purposes of issuance of the bonds by third persons, as well as bonds which are unsecured.

The issuance of bonds without securement is permitted no sooner than the third year of existence of the company, and under the condition of proper certification of two annual balances of the company by this time.

Bonds may be nominal or payable to the bearer. Upon issuance of nominal bonds, the company must keep a register of their holders. A lost nominal bond is replaced by the company for a reasonable fee. The rights of an owner of a lost bearer bond are restored by court in accordance with the procedure established by the procedural legislation of the Russian Federation.

A company has the right to specify the possibility of early repayment of bonds at the request of their owners. In this case, the decision on issuance of bonds must define the value of repayment and the term no sooner than which they may be submitted for early repayment.

4. A company does not have the right to distribute bonds and other securities which are convertible into stock in the company if the number of announced shares in the company of certain categories and types is less than the number of shares of these categories and types whose right of acquisition is granted by such securities.

Article 34. Payment for stock and securities in a company

1. Shares of stock in a company issued at the time of its founding must be paid for in full within the term defined by the company charter. Moreover, no less than 50 percent of the company's statutory capital must be paid for at the moment of registration of the company, and the remaining part—within a year from the moment of its registration, unless otherwise specified by the federal law on state registration of legal entities.

Supplemental shares in a company must be paid for within the term defined in accordance with the decision on their distribution, but no later than 1 year from the moment of their acquisition (distribution).

2. Payment for stock and other securities in a company may be performed in money, securities, other things or property rights, or in other rights having monetary valuation. The form of payment for shares in a company at the time of its founding is defined by the agreement on creation of the company or by the company charter, and of supplemental shares and other securities—by the decision on their distribution.

Supplemental shares of stock which must be paid for with money are paid for upon their acquisition in the amount of no less than 25 percent of their nominal value.

Stocks and other securities in a company which must be paid for with non-monetary means are paid for upon their acquisition in full amount, unless otherwise specified by the agreement on creation of the company at the time of its founding or by the decision on distribution of additional shares.

3. Monetary appraisal of the property given as payment for stock at the time of founding of a company is performed by agreement between the founders.

In payment for supplemental shares of stock and other securities of a company with non-monetary means, the monetary appraisal of the property given as payment for the stock and other securities is performed by the board of directors (supervisory council) of the company in accordance with the procedure specified by Article 77 of the present federal law.

If the nominal values of the stocks and securities acquired by this method comprises more than 200 times the minimal amount of the labor wage specified by federal law, then a monetary appraisal by an independent appraiser (auditor) of the property given as payment for the stocks and other company securities is required. The company charter may contain limitations on the types of property which may be used to pay for stocks and other company securities.

4. Stocks do not grant the right to vote up until the moment they have been paid for in full, with the exception of shares acquired by founders at the time of creation of the company.

In case of partial payment for shares within the terms established in point 1 of the present article, the share goes to the management of the company, which is duly noted in the register of the company's shareholders. Upon expiration of the term specified in point 1 of the present article, the money and (or) other property given as payment for the share is not refunded. The company charter may provide for imposition of a forfeiture (fine, penalty) for failure to fulfill the responsibility of paying for the shares.

Shares which have come into the management of the company do not grant the right to vote, are not considered in the counting of votes, and do not accrue dividends. Such shares must be sold no later than 1 year from the moment they come under the management of the company. Otherwise, the general meeting of shareholders must adopt a decision on reducing the company's statutory capital by means of repayment of the indicated shares.

Article 35. Funds and net assets of company

1. A reserve fund is created within a company in an amount specified by the company charter, but no less than 15 percent of its statutory capital.

The company's reserve fund is formulated by means of mandatory annual deductions until it reaches the amount specified in the company charter. The amount of the annual deductions is specified by the company charter, but may not be less than 6 percent of the net profits up until the amount specified in the company charter is reached.

A company's reserve fund is intended for covering its losses, as well as for repayment of the company's bonds and purchase of shares in the company in case of absence of other funds.

The reserve fund may not be used for other purposes.

2. The company charter may provide for the formulation of a special fund from the net profits, to be used for participation by the company's workers in the joint-stock company. Its funds are spent exclusively on acquisition of shares in the company sold by shareholders of this company, for subsequent distribution to its workers.

3. The value of the company's net assets is appraised according to the data of the accounting report in accordance with the procedure established by the Ministry of Finance of the Russian Federation and the Federal Commission on Securities and the Stock Exchange under the Russian Federation Government.

4. If, upon completion of the second and each subsequent fiscal year, in accordance with the annual bookkeeping balance submitted for ratification to the company's shareholders, or based on the results of the audit verification, the value of the company's net assets turns out to be less than its statutory capital, the company must declare a reduction in its statutory capital to a value which does not exceed the value of its net assets.

5. If, upon the conclusion of the second and each subsequent fiscal year, in accordance with the annual bookkeeping balance proposed for ratification to the company's shareholders, or based on the results of an audit verification, the value of the company's net assets turns out to be less than the amount of the minimal statutory capital indicated in Article 26 of the present federal law, the company must adopt a decision on its liquidation.

6. If in the case specified in point 5 of the present article the decision on reducing the statutory capital of the company or liquidation of the company has not been adopted, its shareholders, creditors, as well as the agencies authorized by the state, have the right to demand liquidation of the company in judicial order.

Chapter IV. DISTRIBUTION OF STOCK AND OTHER SECURITIES BY THE COMPANY

Article 36. Price of distribution of company stock

1. Payment for shares of stock in a company is performed at market value, but no lower than the nominal value.

Payment for shares of stock in a company at the time of its founding is performed by its founders at nominal value.

2. A company has the right to perform distribution of shares at a price below their market value in the following cases:

—distribution of supplemental common stock to shareholders who are holders of common stock in the company in the case of their exercizing their priority right to acquisition of such shares at a price which may not be lower than 90 percent of the market value;

—distribution of supplemental shares with participation of a middleman at a price which may not be lower than their market value by more than the amount of the middleman's remuneration, established in a percentage relation to the price of distribution of such shares.

Article 37. Procedure for conversion of securities to stock

The order of conversion of company securities into stock is established by the decision on distribution of such securities.

Distribution of supplemental shares in the company within the limits of the number of announced shares necessary for conversion of securities to them is performed only by means of such conversion.

Article 38. Price of distribution of securities converted to stock

A company performs distribution of securities convertible to shares of stock at their market value, with the exception of the following cases:

—distribution of securities convertible to common stock to shareholders who are owners of common stock in the company in the case of their exercizing their priority right of acquisition of such securities at a price which may not be lower than 90 percent of their market value;

—distribution of securities convertible to shares of stock with participation of a middleman at a price which may be no lower than their market value by more than the amount of remuneration received by the middleman, established in a percentage relation to the price of distribution of such securities.

The principles of the present article do not apply to a company's distribution of bonds, whose conditions of repayment provide for payment of the nominal value of the bond or its conversion to stock.

Article 39. Methods of distribution of company stock and securities convertible to stock

1. An open company has the right to perform distribution of company stock and securities convertible to stock by means of open and closed subscription.

A closed company does not have the right to perform distribution of company stock and securities convertible to stock by means of an open subcription or to offer them by any other means for acquisition to an unlimited circle of persons.

Distribution of supplemental shares of stock in a company by means of conversion of securities which are convertible to stock is performed in accordance with the established decision on distribution of such securities which are convertible to stock.

2. Methods of distribution (open or closed subscription) by an open company of its stock and securities convertible to stock are defined by the company charter, and in the absence of indications in the company charter—by decision of the general meeting of shareholders. In the absence of instructions on the question of the method of distribution of stock and securities convertible to stock in the company charter or in a decision by the general meeting of shareholders, the distribution may be performed only by means of open subscription.

3. Distribution by a company of stock and securities convertible to stock is performed in accordance with the legal statutes of the Russian Federation.

The legal statutes of the Russian Federation may establish cases of mandatory distribution by an open company of the company stock and securities convertible to stock by means of open subscription.

Article 40. Provision of the rights of shareholders in distribution of company stock and securities convertible to stock

1. In the case of a company's distribution of voting shares and securities convertible to voting shares of stock by means of open subscription, with payment for them being performed in money, the company charter may specify that the shareholders who are owners of the voting stock in the company have priority right of acquisition of these securities in an amount proportional to the number of shares of voting stock in the company which they hold.

2. The decision on non-application of the priority right of acquisition of voting shares of stock and securities convertible to voting shares of stock, in case of their distribution by means of open subcription with payment made in money, as well as on the term of effectiveness of such a decision, may be adopted by the general meeting of shareholders by a majority of votes of the holders of voting shares of stock participating in the general meeting of shareholders.

The decision on non-application of the priority right of acquisition of voting shares of stock and securities convertible to voting stock remains in effect for the term established by the decision of the general meeting of shareholders, but no more than 1 year from the moment of adoption of such decision.

3. The principles of the present article do not apply to owners of preferred stock in a company who have acquired the right to vote in accordance with points 3 and 4, Article 82 of the present federal law.

Article 41. Order of exercising priority right to acquisition of stock and securities convertible to stock

1. No less than 30 days prior to the date of the start of distribution of voting shares of stock and securities convertible to voting stock by the company, with payment for them to be made in money, the shareholders who are owners of voting shares of stock in the company must be notified of the possibility of their exercising the right specified in Article 40 of the present federal law, in accordance with the procedure specified by the present federal law for notification of conducting a general meeting of shareholders.

The notification must contain information on the number of distributed shares of voting stock and securities convertible to voting stock, the price of their distribution (including the price of their distribution to shareholders in the company in case of their exercising their priority right of acquisition), the procedure for determining the number of securities which each shareholders has the right to acquire, the term of effect and procedure of exercising this right by the shareholder.

2. The shareholder has the right to exercise his priority right in full or in part, by means of sending the company an application in written form regarding acquisition of voting stock and securities convertible to voting stock. This application must contain the name (appelation) and place of residence (place of location) of the shareholder, the number of securities being acquired by him, and a document of payment. Such application must be sent to the company no later than the day preceding the date on which distribution of the supplemental voting shares of stock and securities convertible to voting stock is to begin.

Chapter V. COMPANY DIVIDENDS

Article 42. Procedure of payment of dividends by the company

1. A company has the right to make a decision (announcement) on payment of dividends on distributed shares of stock on a quarterly, semi-annual or annual basis, unless otherwise specified by the present federal law and the company charter.

A company is obligated to pay out the dividends announced for each category (type) of stock. The dividends are paid in money, and in the cases specified by the company charter—in other property.

2. Dividends are paid out of the company's net profit for the current year. Dividends on preferred stock of certain types may be paid at the expense of company funds specially designated for this purpose.

3. The decision to pay interim (quarterly, semi-annual) dividends, the amount of the dividend and the form of its payment on shares of each category (type) is made by the board of directors (supervisory council) of the company. The decision on payment of annual dividends, the amount of the dividend and the form of its payment on shares of each category (type) is made by the general meeting of shareholders at the recommendation of the board of directors (supervisory council) of the company. The amount of annual dividends may not be greater than that recommended by the board of directors (supervisory council) of the company, or less than the interim dividends which have been paid out. The general meeting of shareholders has the right to adopt a decision on non-payment of a dividend on shares of certain categories (types), as well as on payment of dividends in partial amount on preferred shares, the amount of dividends for which is defined in the charter.

4. The date of payment of annual dividends is defined by the company charter or by decision of the general meeting of shareholders on payment of annual dividends. The date of payment of interim dividends is determined by decision of the board of directors (supervisory council) of the company on payment of interim dividends, but may not be sooner than 30 days from the day of adoption of such a decision.

For each payment of dividends, the board of directors (supervisory council) of the company compiles a list of persons who have the right to receive the dividend. The list of persons having the right to receive interim dividends must include shareholders and nominal holders of shares included in the register of shareholders in the company no later than 10 days prior to the date on which the board of directors (supervisory council) of the company adopts the decision on payment of dividends. The list of persons having the right to receive annual dividends must include shareholders and nominal holders of shares who have been entered into the register of the company's shareholders on the day of compilation of the list of persons having the right to participate in the annual general meeting of shareholders.

Article 43. Limitations on payment of dividends

1. A company does not have the right to adopt a decision on payment (announcement) of dividends on shares:

—prior to full payment of the statutory capital of the company;

—prior to the purchase of all shares which must be bought up in accordance with Article 78 of the present federal law;

—if at the time of payment of dividends it exhibits signs of insolvency (bankruptcy) in accordance with the legal statutes of the Russian Federation on insolvency (bankruptcy) of enterprises or if the said indicators appear within the company as a result of payment of the dividends;

—if the value of the company's net assets is less than its statutory capital, and its reserve fund, and its surplus over the nominal value of the liquidation value of distributed preferred stock defined by the charter, or if these sums become less than the specified amount as a result of payment of the dividends.

2. A company does not have the right to adopt a decision on payment (announcement) of dividends on common and preferred stock whose amount of dividend is not defined, if no decision has been adopted on payment of dividends in full amount for all types of preferred shares whose dividend amounts are defined by company charter.

3. A company does not have the right to adopt a decision on payment (announcement) of dividends on preferred shares of a certain type for which the amount of dividend is defined by the charter, if no decision has been made on full payment of dividends on all types of preferred shares which grant priority in sequence of receiving dividends over preferred shares of this type.

Chapter VI. REGISTER OF COMPANY SHAREHOLDERS

Article 44. Register of company shareholders

1. The register of company shareholders provides information on each registered person (shareholder or nominal holder of stock), the number and categories (types) of shares recorded in the name of each registered person, and other information specified by the legal statutes of the Russian Federation.

2. The company must make provision for maintaining and safekeeping of the register of company shareholders in accordance with the legal statutes of the Russian

Federation no later than one month from the moment of state registration of the company.

3. The holder of the register of company shareholders may be the company which performs distribution of the stock, or a specialized registry.

A company with a number of shareholders who are owners of common stock exceeding 50 must assign the maintenance and safekeeping of the register of company shareholders to a specialized registry.

4. A company which assigns the maintenance and safekeeping of the register of company shareholders to a specialized registry is not absolved of responsibility for its maintenance and safekeeping.

5. A person registered in the register of company shareholders must inform the holder of the register of company shareholders in a timely manner about any change in his data. In case of his failure to present information about a change in his data, the company and the specialized registry do not bear liability for losses incurred in connection with this.

Article 45. Recording of entry in register of company shareholders

1. Recording of an entry in the register of company shareholders is performed at the request of the shareholder or nominal holder of stock no later than 3 days from the moment of presentation of documents specified by the legal statutes of the Russian Federation.

2. Refusal to make an entry in the registry of company shareholders is not permitted, with the exception of cases specified by the legal statutes of the Russian Federation. In case of refusal to record an entry in the register of company shareholders, the holder of the said register, no later than 5 days from the moment of submission of request to record the entry in the register of company shareholders, shall forward to the person requesting the recording of the entry a motivated notification of refusal to make such entry.

Refusal to record an entry in the register of company shareholders may be appealed in court. At the decision of the court, the holder of the register of company shareholders must record the appropriate entry in the indicated register.

Article 46. Excerpts from register of company shareholders

The holder of the register of company shareholders, at the demand of the shareholder or nominal holder of stock, must confirm his right to the shares by means of issuing an excerpt from the register of company shareholders, which is not a security.

Chapter VII. GENERAL MEETING OF SHAREHOLDERS

Article 47. General meeting of shareholders

1. The supreme body of management of the company is the general meeting of shareholders.

A company is obligated to hold a general meeting of shareholders each year (annual general meeting of shareholders).

The annual general meeting of shareholders is held within the times established by the company charter, but no sooner than 2 months and no later than 6 months after conclusion of the company's fiscal year. The question of electing the board of directors (supervisory council) of the company, the auditing commission (inspector) of the company, and ratification of the company auditor are resolved at the annual general meeting of shareholders. Also, the annual report of the company and other documents submitted by the company's board of directors (supervisory council) are reviewed in accordance with subpoint 11, point 1, Article 48 of the present federal law.

General meetings of shareholders which are held aside from the annual meeting are extraordinary.

2. The date and order of conducting the general meeting of shareholders, the procedure of informing shareholders of it, and the list of materials (information) presented to shareholders in preparation for holding the general meeting of shareholders is determined by the company's board of directors (supervisory council) in accordance with the requirements of the present federal law.

Article 48. Competency of the general meeting of shareholders

1. The competency of the general meeting of shareholders includes the following questions:

1) introduction of changes and amendments to the company charter or ratification of a company charter in a new edition;

2) reorganization of the company;

3) liquidation of the company; appointment of a liquidation committee and ratification of the interim and final liquidation balances;

4) determination of the number of members on the company's board of directors (supervisory council); election of its members and early termination of their powers and authorities;

5) determination of the maximal number of announced shares;

6) increase of the company's statutory capital by means of increasing the nominal value of shares or by means of distribution of additional shares;

7) reduction of the company's statutory capital by means of reducing the nominal value of shares, acquisition of part of the shares by the company for purposes of reducing their overall number or repayment of shares which are not fully paid for in accordance with Article 29 of the present federal law, as well as by means of liquidation of shares acquired or bought up by the company in accordance with point 3, Article 72 and paragraph two, point 6, Article 76 of the present federal law;

8) formation of an executive body of the company, early termination of its powers and authorities if the company charter does not relegate these questions to the competency of the company's board of directors (supervisory council);

9) election of members of the company auditing commission (inspector) and early termination of their powers and authorities;

10) ratification of the company auditor;

11) ratification of annual reports, bookkeeping balances, accounting of company profits and losses, distribution of its profits and losses;

12) adoption of the decision on non-application of priority right of a shareholder for acquisition of company stock or securities convertible to stock, as specified in Article 40 of the present federal law;

13) order of conducting the general meeting;

14) formation of the counting commission;

15) determination of the form in which the company imparts materials (information) to the shareholders, including determination of the press organ in case of information presented in published form;

16) splitting and consolidation of shares;

17) conclusion of deals in cases specified by Article 83 of the present federal law;

18) conclusion of large deals associated with acquisition and cession of property by the company in the cases specified by Article 79 of the present federal law;

19) acquisition and purchase of distributed shares by the company in the cases specified by the present federal law;

20) participation in holding companies, financial-industrial groups and other unified commercial organizations;

21) resolution of other questions specified in the present federal law.

2. Resolution of questions indicated in subpoints 1-18, point 1 of the present article is related to the exclusive competency of the general meeting of shareholders. Questions relegated to the exclusive competency of the general meeting of shareholders may not be handed over for resolution to the company's executive body.

Questions relegated to the exclusive competency of the general meeting of shareholders may not be handed over for resolution to the company's board of directors (supervisory council), with the exception of resolution of questions on introducing changes and amendments to the company charter, associated with increasing the company's statutory capital in accordance with Articles 12 and 27 of the present federal law.

3. The general meeting of shareholders does not have the right to review and adopt decisions on questions which are not relegated to its competency by the present federal law.

Article 49. Decisions of the general meeting of shareholders

1. With the exception of cases specified by the federal laws, the following have the right to vote at the general meeting of shareholders on questions which are put to a vote:

—shareholders who are owners of common stock in the company;

—shareholders who are owners of preferred stock in the company in the cases specified by the present federal law and the company charter.

A voting share of the company is a share of common stock or preferred stock which grants the shareholder, its owner, the right to vote in resolving a question which has been put to a vote. If a share of preferred stock grants its owner more than one vote, in determining the number of voting shares each vote on such preferred stock is considered as a separate voting share.

2. The decision of the general meeting of shareholders on a question which has been put to a vote is adopted by a majority of votes of the shareholders who are owners of voting shares in the company taking part in the meeting, if the present federal law or company charter do not specify a greater number of shareholder votes as being necessary for adoption of the decision.

Counting the votes at the general meeting of shareholders on a question which has been put to a vote, and on whose resolution shareholders who are owners of common and preferred stock in the company have the right to vote, is performed for all voting shares jointly, unless otherwise specified by the present federal law or the company charter.

3. A decision on questions indicated in subpoints 1, 12 and 15-20, point 1, Article 48 of the present federal law is adopted by the general meeting of shareholders only at the proposal of the company's board of directors (supervisory council), unless otherwise specified in the company charter.

4. Decisions on questions indicated in subpoints 1-3, 5 and 18, point 1 of Article 48 of the present federal law are adopted by the general meeting of shareholders by a three-fourths majority of votes of the shareholders who are owners of voting shares participating in the general meeting of shareholders.

5. The procedure of adoption of a decision by the general meeting of shareholders regarding the order of conducting the general meeting of shareholders is specified by the company charter or by internal company documents, ratified by decision of the general meeting of shareholders.

6. The general meeting of shareholders does not have the right to adopt decisions on questions which are not included on the meeting agenda, or to change the agenda.

7. Decisions adopted by the general meeting of shareholders, as well as the results of voting, are brought to the information of the shareholders in accordance with the procedure and in the times specified by the present federal law and by the company charter, but no later than 45 days from the date of adoption of these decisions.

8. A shareholder has the right to appeal in court a decision adopted by the general meeting of shareholders in violation of the requirements of the present federal law, other legal statutes of the Russian Federation or the company charter, if he has not participated in the general meeting of shareholders or voted against the adoption of such decision and if the said decision has violated his rights and lawful interests. Taking into consideration all the circumstances in the case, the court has the right to leave the appealed decision in effect, if the voting of the given shareholder could not have influenced the outcome of the voting, if the allowed violation was not significant, and if the decision did not entail infliction of loss upon the given shareholder.

Article 50. Decision of the general meeting of shareholders adopted by means of conducting absentee voting (by means of polling)

1. A decision of the general meeting of shareholders may be adopted without conducting a meeting (joint presence of shareholders for discussion of questions on the agenda and adoption of decisions on questions put to a vote) by means of conducting an absentee vote (by means of polling). The requirements for the procedure of conducting a general meeting by means of holding an absentee vote (by means of polling) may be established by the legislative statutes of the Russian Federation.

The decision of the general meeting of shareholders on questions indicated in point 1, Article 47 of the present federal law may not be adopted by means of holding an absentee vote (by means of polling).

2. A decision of the general meeting of shareholders adopted by means of absentee vote (by means of polling) is considered valid if shareholders owning a total of no less than half of the voting shares in the company participated in the voting.

3. Absentee voting is conducted with the use of voting ballots which meet the requirements of Article 60 of the present federal law. The date on which the shareholders are given the voting ballots must be determined no later than 30 days prior to the final day of receipt of the ballots by the company.

Article 51. Right to participate in general meeting of shareholders

1. The list of shareholders having the right to participate in the general meeting of shareholders is compiled on the basis of the data in the register of shareholders in the company on the date determined by the company's board of directors (supervisory council).

The date of compilation of the list of shareholders having the right to participate in the general meeting of shareholders may not be set prior to the date of adoption of the decision on holding the general meeting of shareholders or more than 60 days prior to the date of holding the general meeting.

In the case of conducting a general meeting of shareholders in which voting ballots received by the company are used to determine a quorum in accordance with point 2 Article 58 of the present federal law, the date of compilation of the list of shareholders having the right to participate in the general meeting of shareholders is determined to be no less than 45 days prior to the date of holding the general meeting of shareholders.

2. For compilation of the list of shareholders having the right to participate in the general meeting, the nominal holder of the shares presents data on persons in whose interests he holds the shares by the date of compilation of the list.

3. The list of shareholders having the right to participate in the general meeting of shareholders contains the names (appelations) of each shareholder, his address (place of location), and data on the number and category (type) of shares belonging to him.

4. The list of shareholders having the right to participate in the general meeting of shareholders is presented by the company for familiarization upon demand of persons registered in the register of shareholders of the company and possessing no less than 10 percent of the votes at the general meeting of shareholders.

At the demand of a shareholder, the company must present to him information on his inclusion in the list of shareholders having the right to participate in the general meeting of shareholders.

5. Changes to the list of shareholders having the right to participate in the general meeting of shareholders may be made only in case of restoration of violated rights of persons not included in the said list on the date of its compilation, or correction of errors allowed during its compilation.

Article 52. Information on holding general meeting of shareholders

1. Shareholders are informed about the general meeting of shareholders which is to be held by means of sending them written notification or by publication of information.

The form of notification of shareholders about holding the general meeting of shareholders, including the press organ in case notification is given in the form of published information, is determined by the company charter or by decision of the general meeting of shareholders.

If the company charter does not provide for a specific form of information, notification of holding the general meeting of shareholders, including sending out voting ballots, is performed by registered letter.

The company has the right to additionally inform shareholders about holding the general meeting of shareholders through other mass media (television, radio).

2. The time of informing shareholders about holding the general meeting of shareholders is established by company charter.

A company which has over 1,000 shareholders who are owners of voting shares must send written notification or publish information on holding the general meeting of shareholders no later than 30 days prior to the date on which it is to be held.

3. Notification of holding the general meeting of shareholders must contain:

—the name and place of location of the company;

—the date, time and place of holding the general meeting of shareholders;

—the date of compilation of the list of shareholders having the right to participate in the general meeting of shareholders;

—the questions included on the agenda of the general meeting of shareholders; the procedure of familiarization of shareholders with the information (materials) subject to presentation to shareholders in preparation for holding the general meeting of shareholders.

4. The information (materials) subject to presentation to shareholders in preparation for holding the general meeting of shareholders includes the company's annual report; the conclusion of the inspection commission (inspector) of the company and the company auditor on results of the annual verification of financial-economic activity of the company; information on candidates to the company's board of directors (supervisory council) and auditing commission (auditor) of the company; the draft changes and amendments introduced into the company charter, or the draft charter of the company in a new edition.

The list of additional information (materials) mandatory for presentation to shareholders in preparation for holding the general meeting of shareholders may be detemined by the Federal Commission on Securities and the Stock Market under the Government of the Russian Federation.

5. If a person registered in the register of shareholders of a company is a nominal stockholder, the notification of holding the general meeting of shareholders is sent to the nominal stockholder. The nominal stockholder must inform his clients in accordance with the procedure and within the times specified by the legal statutes of the Russian Federation or by agreement with the client.

Article 53. Proposals for agenda of the general meeting of shareholders of a company

1. The shareholders (shareholder) of a company who together hold no less than 2 percent of the voting shares in the company, within a time of no later than 30 days after conclusion of the company's fiscal year, unless the company charter establishes a later term, have the right to submit no more than two proposals for the agenda of the annual general meeting of shareholders and to nominate candidates for the company's board of directors (supervisory council) and to the company's

auditing commission (auditor), the number of which may not exceed the quantitative complement of this body.

2. The proposal for the agenda of the general meeting of shareholders is submitted in written form, with indication of the motives for formulation, the name of the shareholder (shareholders) submitting the question, and the number and category (type) of stock belonging to him.

3. Upon submitting proposals on nomination of candidates to the company's board of directors (supervisory council) and the company's auditing commission (auditor), including in the case of self-nomination, the name of the candidate is indicated (if the candidate is a shareholder in the company), the number and category (type) of shares belonging to him, as well as the names of the shareholders nominating the candidate, and the number and category (type) of shares belonging to them.

4. The company's board of directors (supervisory council) must review the proposals which have been received and adopt a decision on their inclusion in the agenda of the general meeting of shareholders or on refusal to include them in the said agenda no later than 15 days after conclusion of the time specified in point 1 of the present article. A question introduced by a shareholder (shareholders) is subject to inclusion in the agenda of the general meeting of shareholders, just as the nominated candidates are subject to inclusion in the list of candidacies for voting in elections to the company's board of directors (supervisory council) and the company's auditing commission (auditor), with the exception of cases when:

—a shareholder (shareholders) did not adhere to the term specified in point 1 of the present article;

—a shareholder (shareholders) are not owners of the number of voting shares in the company specified in point 1 of the present article;

—the data specified in point 3 of the present article are incomplete;

—the proposals do not correspond to the demands of the present federal law and other legal statutes of the Russian Federation.

5. A motivated decision by the company's board of directors (supervisory council) on refusal to include a question in the agenda of the general meeting of shareholders or a candidate in the list of candidacies for voting in elections to the company's board of directors (supervisory council) and auditing commission (auditor) is forwarded to the shareholder (shareholders), who submitted the question or presented the proposal, no later than 3 days from the date of its adoption.

The decision of the company's board of directors (supervisory council) on refusal to include a question in the agenda of the general meeting of shareholders or a candidate in the list of candidacies for voting in elections to the company's board of directors (supervisory council) and the company's auditing commission (auditor) may be appealed in court.

Article 54. Preparing for and conducting the general meeting of shareholders

In preparing for and conducting the general meeting of shareholders, the company's board of directors (supervisory council), and in the cases specified by point 6, Article 55 of the present federal law, the persons convening the meeting, shall determine:

—the date, place and time of holding the general meeting of shareholders;

—the agenda of the general meeting of shareholders;

—the date of compilation of the list of shareholders having the right to participate in the general meeting of shareholders;

—the procedure of informing the shareholders about holding the general meeting of shareholders;

—the list of information (materials) presented to shareholders in preparation for conducting the general meeting of shareholders;

—the form and text of the voting ballot in the case of voting by ballots.

Article 55. Extraordinary general meeting of shareholders

1. An extraordinary general meeting of shareholders is held at the decision of the company's board of directors (supervisory council) on the basis of its own initiative, the demands of the auditing commission (inspector) of the company, the company auditor, as well as a shareholder (shareholders) who is owner of no less than 10 percent of the voting shares in the company on the date of presentation of the demand. The decision must define the form of conducting the general meeting of shareholders (joint presence or absentee voting). The company's board of directors (supervisory council) does not have the right to change the form of holding the extraordinary general meeting of shareholders by its decision, if the demands of the auditing commission (inspector) of the company, the company auditor, as well as the indicated shareholder (shareholders) on holding the extraordinary general

meeting of shareholders contains indication of the form in which it is to be conducted.

The decision of the company's board of directors (supervisory council) on holding an extraordinary general meeting of shareholders in the form of absentee voting (by means of polling) must define:

—the form and text of the voting ballot;

—the date of presentation of the voting ballot and other information (materials) to shareholders in accordance with the company charter, the requirements of the present federal law and other legal statutes of the Russian Federation;

—the final date for receipt of voting ballots by the company.

The convocation of an extraordinary general meeting of shareholders at the demand of the auditing commission (inspector) of the company, the company auditor or a shareholder (shareholders) who is the owner of no less than 10 percent of the voting shares in the company is performed by the company's board of directors (supervisory council) no later than 45 days from the moment of presentation of the demand on holding an extraordinary general meeting of shareholders.

2. The demand for holding an extraordinary general meeting of shareholders must formulate the questions subject to introduction in the agenda of the meeting, with indication of the motives for their introduction.

The company's board of directors (supervisory council) does not have the right to introduce changes into the formulation of questions on the agenda of the extraordinary general meeting of shareholders convened at the demand of the auditing commission (inspector) of the company, the company auditor or a shareholder (shareholders) who is the owner of no less than 10 percent of the voting shares in the company.

3. If the demand to convene an extraordinary general meeting of shareholders comes from a shareholder (shareholders), it must contain the name (appelation) of the shareholder (shareholders) demanding convocation of the meeting, with indication the number and category (type) of shares belonging to him (them).

The demand for convocation of an extraordinary general meeting of shareholders is signed by the person (persons) demanding convocation of the extraordinary general meeting of shareholders.

4. Within 10 days from the date of submission of the demand of the company's auditing commission (inspector), the company's auditor or shareholder (shareholders) who are owners of no less than 10 percent cf the voting shares in the company, for convocation of an extraordinary general meeting, the company's board of directors (supervisory council) must adopt a decision on convocation of an extraordinary general meeting of shareholders or on rejection of convocation.

The decision on refusal to convene an extraordinary general meeting of shareholders upon demand of the auditing commission (inspector) of the company, the company auditor or a shareholder (shareholders) who is the owner of no less than 10 percent of the voting shares in the company, may be adopted only if:

—the procedure for submitting demands on convocation of a meeting established by the present federal law is not adhered to;

—a shareholder (shareholders) demanding convocation of an extraordinary general meeting of shareholders is not the owner of the number of voting shares of stock in the company as specified in point 1 of the present article;

—not one of the questions proposed for introduction to the agenda of the extraordinary general meeting of shareholders is related to its competency;

—the question proposed for introduction to the agenda does not correspond to the requirements of the present federal law and other legal statutes of the Russian Federation.

5. The decision of the company's board of directors (supervisory council) on convocation of an extraordinary general meeting of shareholders or a motivated decision on rejection of its convocation is forwarded to the persons demanding its convocation no later than 3 days from the moment of its adoption.

The decision of the company's board of directors (supervisory council) on refusal to convene an extraordinary general meeting of shareholders may be appealed in court.

6. If, within the course of the time established by the present federal law, the company's board of directors (supervisory council) does not adopt a decision on convening an extraordinary general meeting of shareholders or on refusing to convene it, the extraordinary general meeting of shareholders may be convened by persons demanding its convocation.

In this case, the expenditures on preparing for and conducting the general meeting of shareholders may be compensated, at the decision of the general meeting of shareholders, at the expense of company funds.

Article 56. Counting commission

1. In a company having more than 100 shareholders who are owners of voting stock in the company, a

counting commission is created, whose quantitative and personnel complement is ratified by the general meeting of shareholders upon nomination by the company's board of directors (supervisory council).

2. The complement of the counting commission may be comprised of no less than three persons. The counting commission may not include members of the company's board of directors (supervisory council), members of the company's auditing commission (auditor), members of the collective executive body of the company, the individual executive body of the company, as well as the administrative organization or the administrator, as well as persons who are nominated as candidates to these positions.

3. In a company with more than 500 shareholders who are owners of voting shares in the company, the fulfillment of the functions of the counting commission may be charged to a specialized company registrar.

4. The counting commissing determines the quorum of the general meeting of shareholders, explains questions emerging in connection with the realization by shareholders (their representatives) of the right to vote at the general meeting, explains the order of voting on questions put to a vote, ensures the specified order of voting and the rights of the shareholders to participate in the voting, counts the votes and summarizes the results of the voting, compiles a protocol on the results of the voting, and forwards the voting ballots to the archives.

Article 57. Order of participation of shareholders in the general meeting of shareholders

1. The right to participate in the general meeting of shareholders is exercised by a shareholder personally, as well as through his representative.

A shareholder has the right to replace his representative at the general meeting of shareholders at any time, or to personally participate in the general meeting of shareholders.

A representative of a shareholder at the general meeting of shareholdeers acts in accordance with the powers and authorities based on the instructions of federal laws or statutes of authorized state agencies or organs of local self-government, or power of attorney compiled in written form. A power of attorney for voting must contain information on the party being represented and the representative (name or appelation, place of residence or place of location, passport data). The power of attorney for voting must be formulated in accordance with the requirements of points 4 and 5, Article 185 of the Civil Code of the Russian Federation, or notarized.

2. In case of transfer of stock after the date of compilation of the list and prior to the date of holding the general meeting of shareholders, the person included in the list of shareholders having the right to participate in the general meeting of shareholders must provide the party who has acquired the stock with a power of attorney for voting, or must vote at the general meeting in accordance with the instructions of the party acquiring the shares. The indicated rule is applied also to each subsequent case of transfer of stock.

3. If a share in a company is held in common joint ownership of several persons, the powers and authorities on voting at the general meeting of shareholders are exercised at their discretion by one of the participants in the common joint ownership, or by their general representative. The powers and authorities of each of the indicated persons must be property formulated.

Article 58. Quorum of the general meeting of shareholders

1. The general meting of shareholders is lawful (has a quorum) if at the moment of conclusion of registration for participation in the general meeting of shareholders, shareholders (their representatives) have registered who possess a total of over half of the votes of the distributed voting shares of stock in the company.

2. If voting ballots have been sent out to the shareholders, the votes represented by the said ballots, received by the company no later than two days prior to the date of holding the general meeting of shareholders, are counted in determining a quorum and in summarizing the results of the voting.

3. In the absence of a quorum for holding the general meeting of shareholders, the date of holding a new general meeting of shareholders is announced. In conducting a new general meeting of shareholders, change in the agenda is not permitted.

The new general meeting of shareholders, convened in place of the one which was not held, is lawful if at the moment of conclusion of registration for participation in it, shareholders (their representatives) possessing a total of no less than 30 percent of the votes of the distributed voting shares of stock in the company have registered. The charter of a company with over 500,000 shareholders may provide for a lesser quorum for holding the general meeting of shareholders in place of the one which was not held.

The notification of holding the new general meeting of shareholders is given in the form specified in point 1, Article 52 of the present federal law no later than 10 days prior to the date on which the meeting is to be held.

4. If the date of holding the general meeting of shareholders is postponed by less than 20 days due to absence of a quorum, the shareholders who have the right to participate in the general meeting of shareholders are determined in accordance with the list of shareholders having the right to participate at the general meeting of shareholders which was not held.

Article 59. Voting at the general meeting of shareholders

Voting at the general meeting of shareholders is performed according to the principle of "one voting share in the company - one vote," with the exception of cases of cumulative voting to elect members of the company's board of directors (supervisory council) and in other cases specified by the present federal law.

Article 60. Voting ballot

1. Voting at the general meeting of shareholders on questions of the meeting agenda may be performed by voting ballots.

Voting on questions of the meeting agenda at the general meeting of the shareholders of a company, if the number of shareholders who are owners of voting shares in the company exceeds 100, is performed only by voting ballots.

A company whose number of shareholders who are owners of voting shares in the company exceeds 1,000 must send the shareholders the voting ballots in the times and in accordance with the procedure specified in Article 52 of the present federal law, and must perform receipt of the voting ballots in accordance with point 2, Article 58 of the present federal law. The voting ballots are sent out by registered letter.

2. The form and text of the voting ballot is approved by the company's board of directors (supervisory council). A voting ballot is issued to a shareholder (his representative) who has registered to participate in the general meeting of shareholders, with the exception of the case specified in paragraph three, point 1 of the present article.

3. The voting ballot must contain:

—the full firm name of the company;

—the date and time of holding the general meeting of shareholders;

—the formulation of each question which is being put to a vote, and the order of its review;

—variants of voting on each question which has been put to a vote, expressed in the formulations "for," "against," or "abstain";

—indication of the fact that the voting ballot must be signed by the shareholder.

If voting is being held on a question of electing a member of the company's board of directors (supervisory council) or the auditing commission (inspector) of the company, the voting ballot must contain information about the candidate (candidates), with indication of his surname, name and patronymic.

Article 61. Counting votes in voting conducted by voting ballots

In voting conducted by voting ballots, the votes are counted on those questions on which the voter has selected only one of the possible variants of voting. Voting ballots which have been completed with violation of the above-mentioned requirement are deemed invalid, and the votes on the questions contained in them are not counted.

If a voting ballot contains several questions which have been put to a vote, failure to adhere to the above-mentioned requirement in regard to one or several of the questions does not entail invalidity of the voting ballot as a whole.

Article 62. Protocol on results of voting

1. Based on the results of the voting, the counting commission compiles a protocol on the results of voting, signed by the members of the counting commission or by the person fulfilling its functions.

2. After compilation of the protocol on the results of voting and signing of the protocol of the general meeting of shareholders, the voting ballots are sealed by the counting commission and sent to the company archive for storage.

3. The protocol on results of voting is subject to being appended to the protocol of the general meeting of shareholders.

4. The results of voting are announced at the general meeting of shareholders in the course of which the voting was conducted, or brought to the information of the shareholders after conclusion of the general meeting of shareholders by means of publishing a report on the results of voting or forwarding it to the shareholders.

Article 63. Protocol of general meeting of shareholders

1. The protocol of the general meeting of shareholders is compiled no later than 15 days after conclusion of the general meeting of shareholders, in two copies. Both copies are signed by the presiding chairman and the secretary of the general meeting of shareholders.

2. The protocol of the general meeting of shareholders indicates:

—the place and time of holding the general meeting of shareholders;

—the total number of votes which the shareholders who are owners of voting shares in the company possess;

—the number of votes which the shareholders participating in the meeting possess;

—the chairman (presidium) and secretary of the meeting, and the meeting agenda.

The protocol of the general meeting of the company's shareholders must also contain the basic positions of the speeches, questions put to a vote and results of voting on them, and the decisions adopted by the meeting.

Chapter VIII. BOARD OF DIRECTORS (SUPERVISORY COUNCIL) OF THE COMPANY AND EXECUTIVE BODY OF THE COMPANY

Article 64. Board of directors (supervisory council) of the company

1. The board of directors (supervisory council) of a company performs general management of the company's activity, with the exception of resolution of questions relegated by the present federal law to the exclusive competency of the general meeting of shareholders.

In a company whose shareholders who are owners of voting shares number less than 50, the company charter may specify that the functions of the company's board of directors (supervisory council) be fulfilled by the general meeting of shareholders. In this case, the company charter must contain indication of the specific person or body of the company whose competency includes the resolution of the question of holding the general meeting of shareholders and approving its agenda.

2. At the decision of the general meeting of shareholders, the members of the company's board of directors (supervisory council), during the period of performance of their official duties, may be paid remuneration and (or) compensation of expenses associated with their fulfillment of the functions of members of the company's board of directors (supervisory council). The amounts of such remunerations and compensations are determined by decision of the general meeting of shareholders.

Article 65. Competency of the board of directors (supervisory council) of a company

The competency of a company's board of directors (supervisory council) includes the resolution of questions of general management of the company's activity, with the exception of questions relegated by the present federal law to the exclusive competency of the general meeting of shareholders.

The exclusive competency of the company's board of directors (supervisory council) includes the following questions:

1) determining the priority directions of the company's activity;

2) convening the annual and extraordinary general meetings of shareholders of the company, with the exception of the cases specified in point 6, Article 55 of the present federal law;

3) approving the agenda of the general meeting of shareholders;

4) setting the date for compilation of the list of shareholders having the right to participate in the general meeting, and other questions relegated to the competency of the company's board of directors (supervisory council) in accordance with the principles of Chapter VII of the present federal law and associated with preparing for and conducting the general meeting of shareholders;

5) introducing for resolution of the general meeting of shareholders the questions specified in subpoints 2, 12, 15-20, point 1, Article 48 of the present federal law;

6) increasing the statutory capital of the company by means of increasing the nominal value of shares or by means of the company's distribution of shares within the limits of the amount and category (type) of announced shares, if such right has been granted to it in accordance with the company charter or by decision of the general meeting of shareholders;

7) distribution of bonds and other securities by the company, unless otherwise specified in the company charter;

8) determining the market value of property in accordance with Article 77 of the present federal law;

9) acquiring stocks, bonds and other securities distributed by the company in the cases specified by the present federal law;

10) forming the executive body of the company and early termination of its powers and authorities; determining the amounts of remunerations and compensations paid to it, if this is relegated to its competency by the company charter;

11) giving recommendations on the amount of remunerations and compensations paid out to members of the auditing commission (inspector) of the company, and

determining the amount of payment for the auditor's services;

12) giving recommendations on the amount of the dividend on stock and the order of its payment;

13) utilizing the reserve and other funds of the company;

14) approving internal company documents defining the order of activity of the company's administrative bodies;

15) creating branches and opening representations of the company;

16) adopting decisions on the company's participation in other organizations, with the exception of cases specified in subpoint 20, point 1, Article 48 of the present federal law;

17) concluding major deals associated with the acquisition and cession of property by the company, in the cases specified by Chapter X of the present federal law;

18) concluding deals specified in Chapter XI of the present federal law;

19) other questions specified in the present federal law and the company charter.

Questions relegated to the exclusive competency of the company's board of directors (supervisory council) may not be handed over for resolution to the company's executive organ.

Article 66. Election of company's board of directors (supervisory council)

1. Members of the company's board of directors (supervisory council) are elected by the annual general meeting of shareholders in accordance with the procedure specified by the present federal law and by the company charter, for a term of one year.

Persons elected to the complement of the company's board of directors (supervisory council) may be reelected an unlimited number of times.

At the decision of the general meeting of shareholders, the powers and authorities of any member (all members) of the company's board of directors (supervisory council) may be terminated prior to their expiration.

In case of election of members of the company's board of directors (supervisory council) by cumulative voting in accordance with point 4 of the present article, the decision of the general meeting of shareholders on early termination of their powers and authorities may be adopted only in regard to all members of the company's board of directors (supervisory council).

2. Members of the company's collective executive organ may not comprise a majority in the company's board of directors (supervisory council). A person fulfilling the functions of a singular executive organ may not simultaneously serve as chairman of the company's board of directors (supervisory council).

Requirements set forth for persons elected to the complement of the company's board of directors (supervisory council) may be established by the company charter or by internal document ratified by the general meeting of shareholders.

3. The quantitative make-up of the company's board of directors (supervisory council) is defined by the company charter or by decision of the general meeting of shareholders in accordance with the requirements of the present federal law.

For an open-type company with number of shareholders who are owners of common and other voting shares of stock in the company exceeding 1,000, the quantitative make-up of the company's board of directors (supervisory council) may not be less than 7 members, and for a company whose number of shareholders-owners of common or other voting shares of stock exceeding 10,000—no less than 9 members.

4. Elections of members of the board of directors (supervisory council) of a company whose number of shareholders who are owners of common stock in the company exceeds 1,000 are held by cumulative voting. In a company whose number of shareholders who are owners of common stock in the company is less than 1,000, the charter may provide for cumulative voting in elections of members of the company's board of directors (supervisory council).

In conducting cumulative voting, for each voting share in the company there must be a number of votes equal to the total number of members of the company's board of directors (supervisory council). A shareholder has the right to give the votes on the shares belonging to him entirely to one candidate, or to distribute them among several candidates for member in the company's board of directors (supervisory council).

Candidates who have received the greatest number of votes are considered elected to membership on the company's board of directors (supervisory council).

Article 67. Chairman of the board of directors (supervisory council) of a company

1. The chairman of the board of directors (supervisory council) of a company is elected by the members of the company's board of directors (supervisory council) from among their number by a majority of votes of the total number of members of the company's board of directors

(supervisory council), unless otherwise specified by the company charter.

The company's board of directors (supervisory council) has the right to re-elect its chairman at any time, by a majority of votes of the total number of members on the board of directors (supervisory council), unless otherwise specified by the company charter.

2. The chairman of the company's boad of dirctors (supervisory council) organizes its work, convenes meetings of the company's board of directors (supervisory council) and presides over them, organizes adherence to the protocol at meetings, and presides over the general meeting of shareholders, unless otherwise specified in the company charter.

3. If the chairman of the company's board of directors (supervisory council) is absent, his functions are performed by one of the members of the company's board of directors (supervisory council) at the decision of the company's board of directors (supervisory council).

Article 68. Meeting of the company's board of directors (supervisory council)

1. The meeting of the company's board of directors (supervisory council) is convened by the chairman of the company's board of directors (supervisory council) at his own initiative, at the demand of a member of the board of directors (supervisory council), auditing commission (inspector) of the company, or of the company auditor, executive body of the company, as well as other persons specified in the company charter. The order of convening and conducting meetings of the company's board of directors (supervisory council) is defined by the company charter or by an internal document of the company. The company charter may provide for the possibility of adoption of decisions by the company's board of directors (supervisory council) by absentee voting (by means of polling).

2. A quorum for holding a meeting of the company's board of directors (supervisory council) is defined by the company charter, but may not be less than half the number of elected memebers of the company's board of directors (supervisory council). If the number of members of the company's board of directors (supervisory council) becomes less than half the number specified by the company charter, the company must convene an emergency (extraordinary) general meeting of shareholders to elect a new complement of the company's board of directors (supervisory council). The remaining members of the company's board of directors (supervisory council) have the right to adopt a decision only on the convocation of such an emergency (extraordinary) general meeting of shareholders.

3. Decisions at the meeting of the company's board of directors (supervisory council) are adopted by a majority of votes of those present, unless the present federal law, company charter, or an internal company document determining the order of convening and conducting the meeting of the board of directors (supervisory council) specifies otherwise. In resolving questions at the meeting of the company's board of directors (supervisory council), each member of the company's board of directors (supervisory council) has one vote.

Transfer of a vote by one member of the company's board of directors (supervisory council) to another member of the company's board of directors (supervisory council) is prohibited.

The company charter may specify the right of decisive vote of the chairman of the company's board of directors (supervisory council) in adoption of decisions by the board of directors (supervisory council) in the case of a tie vote of the members of the company's board of directors (supervisory council).

4. A protocol is conducted at the meeting of the board of directors (supervisory council).

The meeting protocol of the company's board of directors (supervisory council) is compiled no later than 10 days after the meeting is held.

The meeting protocol indicates:

—time and place where the meeting was held;

—persons present at the meeting;

—the meeting agenda;

—questions put to a vote and the results of voting on them;

—adopted decisions.

The meeting protocol of the company's board of directors (supervisory council) is signed by the chairman presiding over the meeting, who bears responsibility for the correctness of compilation of the protocol.

Article 69. Executive organ of the company. Singular executive organ of the company (director, general director)

1. The management of current activity of the company is performed by the singular executive organ of the company (director, general director) or by the singular executive organ of the company (director, general director) and the collective executive organ of the company (governing board, directorate).

The company charter, which provides for the presence of simultaneous singular and collective executive organs, must define the competency of each of them. In this case, the person performing the functions of the singular executive organ of the company (director, general director) also performs the functions of chairman of the collective executive organ of the company (governing board, directorate).

At the decision of the general meeting of shareholders, the powers and authorities of the executive organ of the company may be handed over by agreement to a commercial organization (administrative organization) or to an individual entrepreneur (administrator). The conditions of the concluded contract are approved by the company's board of directors (supervisory council), unless otherwise specified by the company charter.

2. The competency of the company's executive organ includes all questions of management of the current activity of the company, with the exception of questions relegated to the exclusive competency of the general meeting of shareholders or the company's board of directors (supervisory council).

The executive organ of the company organizes fulfillment of decisions of the general meeting of shareholders and the board of directors (supervisory council) of the company.

The singular executive organ of the company (director, general director) acts without power of attorney in the name of the company. Among other things, he represents its interests, concludes deals in the name of the company, approves staff, issues orders and gives instructions which are mandatory for fulfillment by all workers of the company.

3. The formation of the executive organs of a company and the early termination of their powers and authorities are performed at the decision of the general meeting of shareholders, if the company charter does not relegate the resolution of these questions to the competency of the company's board of directors (supervisory council).

The rights and responsibilities of the singular executive organ of a company (director, general director), the members of the collective executive organ of a company (governing board, directorate), administrative organization or administrator for implementing management of current activity of the company are defined by the present federal law, other legal statutes of the Russian Federation and by the agreement concluded by each of them with the company. The agreement is signed in the name of the company by the chairman of the board of directors (supervisory council) of the company or by the person authorized by the company's board of directors (supervisory council).

The Russian Federation legislation on labor applies to the relations between the company and the singular executive organ of the company (director, general director) and (or) the members of the collective executive organ of the company (governing board, directorate), insofar as it does not contradict the principles in the present federal law.

A person performing the functions of singular executive organ of a company (director, general director) and members of the collective executive organ of a company (governing board, directorate) may combine his official duties with duties in the organs of administration of other organizations only with the consent of the company's board of directors (supervisory council).

4. The general meeting of shareholders has the right to dissolve at any time the agreement with the singular executive organ of the company (director, general director), the members of the collective executive organ of the company (governing board, directorate), the administrative organization or the administrator, if the company charter does not relegate the resolution of this question to the competency of the company's board of directors (supervisory council).

Article 70. Collective executive organ of a company (governing board, directorate)

1. The collective executive organ of a company (governing board, directorate) acts on the basis of the company charter, as well as the internal company document (statute, rules or other document) ratified by the company's board of directors (supervisory council), which establishes the terms and procedure for convening and conducting its meetings, as well as the procedure for adopting decisions.

2. A protocol is conducted at the meeting of the collective executive organ of the company (governing board, directorate). The meeting protocol of the collective executive organ of the company (governing board, directorate) is presented to members of the company's board of directors (supervisory council), auditing commission (inspector) of the company, and the company auditor at their request.

The meetings of the collective executive organ of the company (governing board, directorate) are organized by the person performing the function of the singular executive organ of the company (director, general director), who signs all documents in the name of the company and the meeting protocols of the collective executive organ of the company (governing board, directorate), and acts without power of attorney in the name of the company in accordance with the decisions of the collective executive organ of the company (governing board, directorate), adopted within the limits of its competency.

Article 71. Responsibility of members of the company's board of directors (supervisory council), singular executive organ of the company (director, general director) and (or) members of the collective executive organ of the company (governing board, directorate), the administrative organization or the administrator

1. Members of the company's board of directors (supervisory council), the singular executive organ of the company (director, general director) and (or) members of the collective executive organ of the company (governing board, directorate), and likewise the administrative organization or administrator, in exercising their rights and fulfilling their responsibilities, must act in the interests of the company, exercise their rights and fulfill their responsibilities to the company in an honest and prudent manner.

2. The members of the company's board of directors (supervisory council), the singular executive body of the company (director, general director) and (or) the members of the collective executive organ of the company (governing board, directorate), and likewise the administrative organization or the administrator bear liability before the company for losses inflicted upon the company through actions for which they are responsible (lack of action), if other grounds and amounts of liability are not established by federal laws.

Moreover, members of the company's board of directors (supervisory council) and of the collective executive organ of the company (governing board, directorate) who voted against the decision which entailed infliction of loss to the company, or who did not take part in the voting, do not bear liability.

3. In determining the grounds for and amount of liability of members of the board of directors (supervisory council), the singular executive organ of the company (director, general director) and (or) members of the collective executive organ of the company (governing board, directorate), and likewise the administrative organization or administrator, it is necessary to take into consideration the customary conditions of business proceedings and other circumstances having bearing on the case.

4. If, in accordance with the principles of the present article, several persons bear liability, their liability to the company is solidary (joint).

5. The company or shareholder (shareholders) who together own no less than 1 percent of the distributed common stock in the company have the right to appeal to court with a claim against a member of the company's board of directors (supervisory council), singular executive organ of the company (director, general director), member of the collective executive organ of the company (governing board, directorate), and likewise the administrative organization or administrator, regarding compensation of the losses inflicted upon the company, in the case specified in point 2 of the present article.

Chapter IX. ACQUISITION AND REDEMPTION OF DISTRIBUTED SHARES BY THE COMPANY

Article 72. Acquisition of distributed shares of stock by the company

1. The company has the right to acquire the shares of stock which it has distributed at the decision of the general meeting of shareholders on reducing the statutory capital of the company by means of acquisition of part of the distributed shares for purposes of reducing their overall number, if this is specified in the company charter.

A company does not have the right to adopt a decision on reducing the statutory capital of the company by means of acquisition of part of the distributed shares for purposes of reducing their overall number if the nominal value of the shares remaining in circulation will be less than the minimal amount of the statutory capital specified by the present federal law.

2. A company has the right to acquire shares of stock which it has distributed at the decision of the company's board of directors (supervisory council), unless otherwise specified by the federal law and the company charter.

The company's board of directors (supervisory council) has the right to adopt a decision on acquisition of shares by the company, if the nominal value of the shares in the company which are in circulation will comprise less than 90 percent of the statutory capital of the company.

3. The shares acquired by a company on the basis of a decision adopted by the general meeting of shareholders on reducing the statutory capital of the company by means of acquiring shares for purposes of reducing their overall number are liquidated upon acquisition.

The shares acquired by the company at the decision of the company's board of directors (supervisory council) do not grant the right to vote, are not considered in counting votes, and do not accrue dividends. Such shares must be sold no later than one year from the date of their acquisition. Otherwise, the general meeting of shareholders must adopt a decision on reducing the statutory capital of the company by means of liquidating the indicated shares, or on increasing the nominal value of the remaining shares by liquidating the acquired shares with retention of the amount of the statutory capital established by the company charter.

4. The decision on acquisition of shares must define the categories (types) of acquired shares, the number of shares of each category (type) acquired by the company, the price of acquisition, the form and term of payment, as well as the term within which the acquisition of shares is to be performed.

Unless otherwise specified by the company charter, payment for the shares upon their acquisition is performed in money. The term during which acquisition of the shares is performed may not be less than 30 days. The price of acquisition of common stock by the company is determined in accordance with Article 77 of the present federal law.

Every shareholder who is the owner of shares of certain categories (types), in regard to which the decision on acquisition has been adopted, has the right to sell the indicated shares, and the company is obligated to acquire them. If the overall number of shares in regard to which notifications of acquisition have been issued by the company exceeds the number of shares which may be acquired by the company with consideration of the limitations established by the present article, the shares are acquired from the shareholders proportionately to the announced requirements.

5. No later than 30 days prior to the start of the term during which acquisition of the shares is to be performed, the company must notify the shareholders who are owners of the shares of certain categories (types), regarding which the decision on acquisition has been adopted. Notification must contain the information indicated in paragraph one, point 4 of the present article.

5. Acquisition of preferred stock is performed at the price specified in the company charter, or at the market value of the shares, determined in accordance with Article 77 of the present federal law.

Article 73. Limitations on acquisition of distributed shares of stock by a company

1. A company does not have the right to perform acquisition of common stock distributed by it:

—prior to full payment of the entire statutory capital of the company;

—if at the moment of its acquisition the company exhibits indications of insolvency (bankruptcy) in accordance with the legal statutes of the Russian Federation on insolvency (bankruptcy) of enterprises or if the said indicators shall appear as a result of the acquisition of these shares;

—if at the moment of its acquisition the value of the company's net assets is less than its statutory capital, reserve fund, and amount by which the liquidation cost of the distributed preferred shares as defined by the charter exceeds the nominal value, or if it will become less than their amounts as a result of acquisition of the shares.

2. A company does not have the right to implement acquisition of preferred shares of stock of a certain type which it has distributed:

—prior to full payment of the entire statutory capital of the company;

—if at the moment of their acquisition the company exhibits indications of insolvency (bankruptcy) in accordance with the legal statutes of the Russian Federation on insolvency (bankruptcy) of enterprises or if the said indicators will appear as a result of acquisition of these shares;

—if at the moment of their acquisition the value of the company's net assets is less than its statutory capital, reserve fund and amount by which the liquidation cost of distributed preferred shares, whose owners possess priority in sequence of payment of liquidation cost over owners of types of preferred stock subject to acquisition, exceeds the nominal value, or if it becomes less than these amounts as a result of acquisition of the shares.

3. The company does not have the right to perform acquisition of distributed shares prior to the purchase of all shares on which demands for purchase have been submitted in accordance with Article 76 of the present federal law.

Article 74. Consolidation and division of shares in a company

1. At the decision of the general meeting of shareholders, a company has the right to perform consolidation of distributed shares, as a result of which two or more shares in the company are converted into one new share of the same category (type). At the same time, the appropriate changes are entered in the company charter regarding the nominal value and number of announced shares in the company.

In the case of formation of fractional shares in the course of consolidation, the latter are subject to purchase by the company at the market value, determined in accordance with Article 77 of the present federal law.

2. At the decision of the general meeting of shareholders, the company has the right to perform division (splitting) of distributed shares in the company, as a result

of which one share in the company is converted into two or more shares of the same category (type). At the same time, the appropriate changes are introduced into the company charter in regard to the nominal value and number of announced shares in the company.

Article 75. Redemption of shares by company at the demand of the shareholders

1. Shareholders who are owners of voting shares have the right to demand redemption of all or part of the shares belonging to them by the company in the following cases:

—Reorganization of the company or conclusion of a major deal, decision on performance of which is adopted by the general meeting of shareholders in accordance with point 2, Article 89 of the present federal law, if they voted against adoption of the decision on the company's reorganization or conclusion of the said deal, or if they did not participate in the voting on these questions;

—Introduction of changes and amendments to the company charter or ratification of a company charter in a new edition, limiting their rights, if they voted against adoption of the said decision or did not participate in the voting.

2. The list of shareholders having the right to demand redemption of the shares belonging to them by the company is compiled on the basis of the data in the register of company shareholders on the day of compilation of the list of company shareholders having the right to participate in the general meeting of shareholders whose agenda includes the questions on which voting in accordance with the present federal law may entail emergence of the right to demand redemption of the shares.

3. Redemption of shares by the company is performed at the market value of these shares, determined without consideration for its change as a result of the action of the company which entailed emergence of the right to demand appraisal and redemption of the shares.

Article 76. Order of exercising shareholder's right to demand the company's redemption of shares belonging to them

1. A company is obligated to inform the shareholders of their right to demand the company's redemption of the shares belonging to them, and of the price and procedure for implementing redemption.

2. The notification given to shareholders on holding the general meeting of shareholders whose agenda includes questions, voting on which may entail emergence of the right to demand recemption of shares by the company in accordance with the present federal law, must contain information indicated in point 1 of the present article. Information on the presence of the right to demand redemption of shares by the company from the shareholders who do not have the right to participate in the general meeting of shareholders, and on the order of implementing such right, is sent to them no later than 7 days following the day of adoption of the decision entailing emergence of the right to demand redemption of the shares by the company.

3. Written demand of the shareholder for redemption of the shares belonging to him is sent to the company, with indication of the place of residence (place of location) of the shareholder and the number of shares whose redemption he is demanding.

Shareholders' demands for the company's redemption of the shares belonging to them must be submitted to the company no later than 45 days from the date of adoption of the appropriate decision by the general meeting of shareholders.

4. Upon expiration of the term indicated in paragraph two, point 3 of the present article, the company is obligated to redeem the shares from the shareholders who have submitted the demand for redemption within a period of 30 days.

5. Redemption of shares by the company is performed at the price indicated in the notification of conducting the general meeting whose agenda includes the questions, voting on which may entail emergence of the right to demand the company's redemption of shares, in accordance with the present federal law. The total sum of funds directed by the company toward redemption of shares may not exceed 10 percent of the value of the company's net assets on the date of adoption of the decision which entailed emergence of the shareholder's right to demand from the company its redemption of the shares belonging to them. If the total number of shares in regard to which demands for redemption have been submitted exceeds the number of shares which may be redeemed by the company with consideration of the above-mentioned limitation, the shares are redeemed from the shareholders proportionately to the demands which have been submitted.

6. Shares redeemed by the company in the case of its reorganization are liquidated upon redemption.

Shares redeemed by the company in other cases specified by point 1, Article 75 of the present federal law, remain at the company's disposal. The indicated shares do not grant the right to vote, are not considered in counting votes, and do not accrue dividends. Such shares must be sold no later than one year from the moment of their redemption. Otherwise, the general meeting of shareholders must adopt a decision on reducing the statutory capital of the company by means of liquidating the indicated shares.

Article 77. Determination of market value of property

1. The market value of property, including the value of shares or other securities, is the price at which the seller, having full information about the value of the property and not obligated to sell it, would be willing to sell it, and the buyer, having full information about the value of the property and not obligated to acquire it, would be willing to acquire it.

2. The market value of property is determined by decision of the company's board of directors (supervisory council), with the exception of cases when, in accordance with the present federal law, the market value is determined by the court or other agency.

If a person who has vested interest in concluding one or several deals in which the determination of market value of property is required is a member of the company's board of directors (supervisory council), the market value of the property is determined by decision of the company's board of directors (supervisory council) who have no interest in conclusion of the deal. In a company whose shareholders number 1,000 or more, the market value of property is determined by independent directors who have no interest in conclusion of the deal.

3. An independent appraiser (auditor) may be called in to determine the market value of property.

Calling in an independent appraiser (auditor) to determine the market value of property is mandatory in the case of the company's redemption of shares belonging to shareholders in accordance with Article 76 of the present federal law.

If the owner of the shares in the company is the state and (or) a municipal formation, a state financial control agency must be called in.

If the property whose value must be determined is stock or other securities, whose purchase price or asking price and offering price are regularly published in the press, such purchase price or asking price and offering price must be taken into consideration in determining the market value of the said property.

If the property whose value must be determined is common stock in a company, the amount of the company's net assets, the price which the buyer who has full information on the total cost of all common stock in the company is willing to pay for all the common shares of stock in the company, and other factors which the person (persons) determining the market value of the property considers important, may all be taken into consideration in determining the market value of the said property.

Chapter X. MAJOR DEALS

Article 78. Major deals associated with acquisition or cession of property by a company

1. Major deals constitute the following:

—A deal or several interrelated deals associated with acquisition or cession or with the possibility of cession by the company, directly or indirectly, of property whose value comprises more than 25 percent of the balance value of the company's assets on the date of adoption of the decision to conclude such deals, with the exception of deals performed in the process of implementation of ordinary economic activity;

—A deal or several interrelated deals associated with distribution of common stock or preferred stock convertible to common stock, comprising over 25 percent of the common stock previously distributed by the company.

2. Determination of the value of property which is the object of a major deal is performed by the company's board of directors (supervisory council) in accordance with Article 77 of the present federal law.

Article 79. Conclusion of a major deal associated with acquisition or cession of property by the company

1. The decision to conclude a major deal whose object is property whose value comprises from 25 to 50 percent of the balance value of the company's assets on the date of adoption of the decision to conclude such a deal, is adopted by the company's board of directors (supervisory council) unanimously. Moreover, votes of departed members of the board of directors (supervisory council) are not counted.

If unanimous decision of the company's board of directors (supervisory council) on the question of concluding a major deal is not reached, at the decision of the company's board of directors (supervisory council) the question of concluding the major deal may be handed over for resolution to the general meeting of shareholders.

2. The decision on concluding a major deal the object of which is property whose value comprises over 50 percent of the balance value of the company's assets on the date of adoption of the decision on concluding such a deal is adopted by the general meeting of shareholders by a three-fourths majority vote of the shareholders who are owners of voting shares present at the meeting.

Article 80. Acquisition of 30 or more percent of common stock in a company

1. A person who has the intention of independently or jointly with an affiliated person (persons) acquiring 30 or more percent of the distributed common stock in a company with number of shareholders who are owners of common stock exceeding 1,000, with consideration of the number of shares belonging to him, must, within 30 days from date of acquisition, send the company written notification of his intent to acquire the indicated shares.

2. A person who independently or, jointly with an affiliated person (person), has acquired 30 or more percent of the distributed common stock in a company, within a period of 30 days from the date of acquisition, must offer the shareholders the opportunity of selling him the shares of common stock in the company belonging to them at a price no lower than the average weighted price for acquisition of shares in the company for the last six months preceding the date of his acquisition of 30 or more percent of the shares in the company.

The company charter or decision of the general meeting of shareholders may provide for excuse from the obligation specified in the present point. The decision of the general meeting of shareholders to grant excuse from such obligation may be adopted by a majority of votes of the owners of voting shares participating in the general meeting of shareholders, with the exception of votes on shares belonging to the person who has acquired or intends to acquire the 30 or more percent of the common stock, and his affiliated persons.

3. The proposal of the person indicated in point 1 of the present article on acquisition of common stock in the company is sent to all shareholders who are owners of common shares of stock in the company, in written form.

4. A shareholder has the right to accept the offer on acquisition of the shares within a time not to exceed 30 days from the moment of receiving the proposal.

5. The proposal to shareholders on acquisition of stock contains data on the person who has acquired 30 or more percent of the common stock in the company (name or appellation, address or place of location), the number of shares and the price of acquisition of shares offered to the shareholders, and the term of acquisition of the shares.

6. Acquisition of 30 or more percent of the distributed common stock in a company and forwarding to shareholders who are owners of common stock in the company a proposal on acquisition of the shares belonging to them is performed within a period of 120 days from the date of sending the company the notification indicated in point 1 of the present article.

7. A person who has acquired 30 or more percent of the distributed common stock in a company in violation of requirements of the present article has the right to vote at the general meeting of shareholders on the shares whose overall number does not exceed 30 percent of the voting shares in the company.

Chapter XI. INTEREST IN CONCLUDING DEAL BY A COMPANY

Article 81. Interest in concluding deal by a company

Persons who have an interest in conclusion of a deal by a company are considered to be: A member of the company's board of directors (supervisory council); a person holding a position in other organs of administration of the company; a shareholder (shareholders) owning together with his affiliated person (persons) 20 or more percent of the voting shares of stock in the company, if the said persons, their spouses, parents, children, brothers, sisters, and likewise all their affiliated persons:

—are a party to such a deal or participate in it as a representative or mediator;

—own 20 or more percent of the voting stock (shares) of a legal entity which is a party to the deal or participates in it as a representative or mediator;

—hold a position in the organs of administration of a legal entity which is a party to the deal or participates in it as a representative or mediator;

Article 82. Information on interest in conclusion of deal by a company

Persons indicated in Article 81 of the present federal law must bring to the attention of the company's board of directors (supervisory council), auditing commission (inspector) of the company and the company auditor information:

—on legal entities in which they own independently or jointly with their affiliated person (persons) 20 or more percent of the voting stock (shares);

—on legal entities in whose organs of administration they hold a position;

—on deals which are being concluded or planned deals known to them in which they may be deemed to be interested persons.

Article 83. Requirements for the order of concluding a deal in whose conclusion there is interest

1. The decision on conclusion of a deal by a company with number of shareholders who are owners of voting

shares of stock less than 1,000, in whose conclusion there is interest, is adopted by the company's board of directors (supervisory council) by a majority of votes of the directors who have no vested interest in its conclusion.

2. The decision on conclusion of a deal in which there is interest by a company with shareholders who are owners of voting shares numbering 1,000 or more is adopted by the company's board of directors (supervisory council) by a majority of votes of the independent directors who hold no interest in conclusion of said deal.

An independent director is a member of the company's board of directors (supervisory council) who is not the singular executive organ of the company (director, general director) or member of a collective executive organ of the company (governing board, directorate), if at the same time his spouse, parents, children, brothers, or sisters are not persons who hold a position in the company's organs of administration.

For adoption of a decision on concluding a deal in whose conclusion there is interest, the company's board of directors (supervisory council) must determine that the value which the company will receive for the ceded property or provided services is not lower than the market value of this property or services, determined in accordance with Article 77 of the present federal law.

3. The decision on a company's conclusion of a deal in which there is interest is adopted by the general meeting of shareholders who are owners of voting stock by a majority of votes of the shareholders who hold no interest in the deal, in the following cases:

—if the sum of payment in the deal and the value of the property which is the object of the deal, determined in accordance with Article 77 of the present federal law, exceeds 2 percent of the company's assets;

—if the deal and (or) several interrelated deals constitute the distribution of voting sares of stock or securities convertible to voting shares, in an amount exceeding 2 percent of the voting shares previously distributed by the company.

4. Conclusion of a deal in which there is interest does not require decision of the general meeting of shareholders as specified in point 3 of the present article in cases where:

—the deal consistutes a loan granted to the company by the interested party;

—the deal is concluded in the process of performing ordinary economic activity between the company and another party, taking place prior to the moment from which the interested party is deemed to be such in accordance with Article 81 of the present federal law (decision is not required prior to date of holding the following general meeting of shareholders).

5. If, on the date of holding the general meeting of shareholders, it is impossible to determine the deals which are concluded in the process of economic relations between the company and other party to the deal where interest may arise in the future, the requirements of point 3 of the present article are considered fulfilled under the condition of adoption of the decision by the general meeting of shareholders to establish contractual relations between the company and the other party, with indication of the character of the deals which may be concluded, and their marginal sums.

6. If all members of the company's board of directors (supervisory council) are deemed to be interested parties, the deal may be concluded at the decision of the general meeting of shareholders, adopted by a majority of votes of shareholders who do not hold an interest in the deal.

7. If a deal in which there is vested interest is at the same time also a major deal, associated with acquisition or transfer of property by the company, the principles of Chapter X. of the present federal law are applicable to the procedure of concluding such deal.

8. Additional requirements for the order of concluding a deal in whose conclusion there is vested interest may be established by the Federal Commission on Securities and the Stock Market under the Russian Federation Government.

Article 84. Consequences of non-adherence to requirements for a deal in whose conclusion there is vested interest

1. A deal in whose conclusion there is vested interest and which is concluded in violation of the requirements for the deal specified in Article 83 of the present federal law, may be deemed invalid.

2. The interested party bears liability to the company in the amount of the losses inflicted by him to the company. If several persons bear responsibility, their liability to the company is solidary (joint).

Chapter XII. CONTROL OVER FINANCIAL-ECONOMIC ACTIVITY OF A COMPANY

Article 85. Auditing commission (inspector) of the company

1. For the purpose of implementing control over the financial-economic activity of the company, the general

meeting of shareholders, in accordance with the company charter, elects an auditing commission (inspector) of the company.

2. The competency of the auditing commission (inspector) of the company on questions not specified in the present federal law is defined by the company charter.

The order of activity of the auditing commission (inspector) of the company is determined by internal document of the company, ratified by the general meeting of shareholders.

3. Verification (audit) of the financial-economic activity of a company is performed according to the results of the company's activity for the year, and also for any period of time at the initiative of the auditing commission (inspector) of the company, the decision of the general meeting of shareholders, the company's board of directors (supervisory council), or at the demand of a shareholder (shareholders) in the company who owns a total of no less than 10 percent of the voting shares of stock.

4. At the demand of the auditing commission (inspector) of the company, persons occupying positions in the organs of administration of the company are obligated to present documents on the company's financial-economic activity.

5. The auditing commission (inspector) of the company has the right to demand convocation of an extraordinary general meeting of shareholders in accordance with Article 53 of the present federal law.

6. Members of the auditing commission (inspector) of a company may not simultaneously be members of the company's board of directors (supervisory council), or hold any other positions in the organs of administration of the company.

Shares belonging to members of the company's board of directors (supervisory council) or to persons holding positions in the organs of administration of the company may not participate in voting in election of members of the auditing commission (inspector) of the company.

Article 86. Company auditor

1. The auditor (citizen or auditing organization) of a company performs verification of the company's financial-economic activity in accordance with the legal statutes of the Russian Federation on the basis of a contract concluded with him.

2. The general meeting of shareholders approves the company auditor. The amount of payment for his services is determined by the company's board of directors (supervisory council).

Article 87. Conclusion of the company auditing commission (inspector) or of the company auditor

Based on the results of verification of the financial-economic activity of the company, the auditing commission (inspector) of the company or the company auditor compiles a conclusion, which must contain:

—confirmation of reliability of data contained in reports and other financial documents of the company;

—information on cases of violation of the order of conducting bookkeeping accounting and submitting financial reporting as established by the legal statutes of the Russian Federation, as well as the legal statutes of the Russian Federation in implementing financial-economic activity.

Chapter XIII. ACCOUNTING AND REPORTABILITY, COMPANY DOCUMENTS. INFORMATION ABOUT COMPANY

Article 88. Bookkeeping accounting and financial reportability of company

1. A company is obligated to perform bookkeeping accounting and submit financial reporting in accordance with the procedure specified by the present federal law and other legal statutes of the Russian Federation.

2. Responsibility for the organization, status and reliability of bookkeeping accounting in the company, timely presentation of the annual report and other financial reporting to the appropriate organs, as well as information on the activity of the company, presented to shareholders, creditors and the mass media, is borne by the executive organ of the company in accordance with the present federal law, other legal statutes of the Russian Federation, and the company charter.

3. Reliability of data contained in the annual report of the company to the general meeting of shareholders, the bookkeeping balance, and the accounting of profits and losses, must be confirmed by the auditing commission (inspector) of the company.

Prior to the company's publication of the documents indicated in the present article, in accordance with Article 92 of the present federal law, the company must, for the purpose of performing annual verification and confirmation of annual financial reportability, call in an auditor who is not associated by property interests with the company or its shareholders.

4. The company's annual report is subject to preliminary approval by the company's board of directors (supervisory council) no later than 30 days prior to the date of holding the annual general meeting of shareholders.

Article 89. Storage of company documents

1. A company is obligated to keep the following documents:

—the company charter; changes and amendments introduced into the company charter, registered in accordance with the established procedure; the decision on creation of the company; evidence of state registration of the company;

—documents confirming the company's right to the property kept on its balance;

—internal documents of the company ratified by the general meeting of shareholders or other organs of administration of the company;

—statute on branch or representation of the company;

—annual financial report;

—prospectus of emission of stock in the company;

—documents of bookkeeping accounting;

—documents of financial reporting submitted to the appropriate agencies;

—protocols of general meetings of the company's shareholders, meetings of the company's board of directors (supervisory council), auditing commission (inspector) of the company and collective executive organ of the company (governing board, directorate);

—lists of persons affiliated with the company, with indication of the number and category (type) of shares belonging to them;

—conclusions of the auditing commission (inspector) of the company, the company auditor, state and municipal organs of financial control;

—other documents specified by the present federal law, by the company charter, internal documents of the company, decisions of the general meeting of shareholders, the company's board of directors (supervisory council), organs of administration of the company, as well as documents specified by the legal statutes of the Russian Federation.

2. The company stores the documents specified in point 1 of the present article at the place of location of its executive organ or in some other place known and accessible to the shareholders, the company's creditors, as well as to interested parties.

Article 90. Provision of information by the company

Information about the company is provided by it in accordance with the requirements of the present federal law and other legal statutes of the Russian Federation.

Article 91. Provision of information by the company to shareholders

1. The company provides shareholders access to the documents specified in point 1, Article 89 of the present federal law, with the exception of documents of bookkeeping accounting and protocols of meetings of the collective executive organ of the company.

2. At the demand of a shareholder, the company is obligated to provide him, for pay, copies of the documents specified in point 1, Article 89 of the present federal law and other company documents specified in the legal statutes of the Russian Federation. The amount of the payment is established by the company and may not exceed the cost of expenditures for making the copies of the documents and payment of expenditures associated with sending the documents by mail.

Article 92. Mandatory publication of information by a company

1. An open company is obligated to annually publish in the mass media the following information, accessible to all shareholders of the said company:

—the annual report of the company, the bookkeeping balance, and the accounting of profits and losses;

—the prospectus of emission of stock in the company in the cases specified by the legal statutes of the Russian Federation;

—a report on holding the general meeting of shareholders in accordance with the procedure specified by the present federal law;

—lists of persons affiliated with the company, with the indication of the number and categories (types) of shares belonging to them;

—other information specified by the Federal Commission on Securities and the Stock Market under the Government of the Russian Federation.

2. A company, including a closed company, in case of its public distribution of bonds or other securities, must publish information in the volume and in accordance with the procedure specified by the Federal Commission on Securities and the Stock Market under the Government of the Russian Federation.

Article 93. Information on affiliated persons of a company

1. A person is deemed to be affiliated in accordance with the anti-monopoly legislation of the Russian Federation.

2. Affiliated persons of a company must give written notification to the company on the shares in the company

belonging to them, with indication of their number and categories (types) no later than 10 days from the date of acquisition of the shares.

3. If, as a result of failure to present the indicated information through the fault of the affiliated person or its untimely presentation, the company sustains property loss, the affiliated person bears liability to the company in the amount of the inflicted loss.

4. A company is obligated to perform accounting of its affiliated persons and to submit reporting on them in accordance with the requirements of the legislation of the Russian Federation.

Chapter XIV. CONCLUDING PRINCIPLES

Article 94. Implementation of the present federal law

1. The present federal law becomes effective as of 1 January 1996.

2. From the moment of implementation of the present federal law, the legal statutes in effect on the territory of the Russian Federation, until they are brought into correspondence with the present federal law, shall be applied in the part in which they do not contradict the present federal law.

3. The constituent documents of joint-stock companies created prior to the implementation of the present federal law are subject to being brought into correspondence with the standards of the present federal law no later than 1 July 1996. The constituent documents of the indicated companies, prior to their being brought into correspondence with the standards of the present federal law, from the moment of implementation of the present federal law shall be applied in the part in which they do not contradict the indicated standards.

Constituent documents of companies which are not brought into correspondence with the present federal law by 1 July 1996 are considered invalid.

In regard to investments of the state or municipal formations, the rights of shareholders are exercised by the appropriate committees on administration of property, property funds or other authorized state agencies or organs of local self-government, with the exception of cases of transfer of shares held in state ownership to the confidential administration or to the statutory capital of unitarian enterprises.

4. The principles of point 3, Article 7 of the present federal law shall not be applied to closed companies created prior to the implementation of the federal law.

5. Henceforth, until the implementation of the appropriate federal laws, the companies listed in point 4, Article 1 of the present federal law shall operate on the basis of legal statutes of the Russian Federation adopted prior to the implementation of the present federal law.

6. It shall be proposed to the President of the Russian Federation that he bring the published legal statutes into correspondence with the present federal law prior to 1 March 1996.

7. The Government of the Russian Federation shall perform the following tasks, prior to 1 March 1996:

—to bring the legal statutes issued by it into correspondence with the present federal law;

—to adopt legal statutes ensuring the realization of the present federal law.

[Signed] President of the Russian Federation B. YELTSIN

Moscow, the Kremlin
26 December 1995
No 208-FZ

*Labor Market in 1995, Prospects for 1996

964E0423A Moscow EKONOMIKA I ZHIZN in Russian Dec 95 No 51, p 36

[Unattributed article based on materials of the RF Government's Commission on Economic Reform: "The Labor Market: Development Trends"]

[FBIS Translated Text] The economic activity of Russia's citizens today is lower than that in the USA. At the same time, the reduction in economic activity, especially great in 1993, decreased by the beginning of this year. And, in recent months, some increase has even been noted.

What also testifies to the new trends in the labor market and in the area of employment, in the specialists' opinion, are the changes in the hidden unemployment indicators. Out of the last 3 years, the most unfavorable one in this respect was 1994. In the current year, the number of workers employed part-time fell. And the duration of administration-initiated layoffs fluctuated greatly on a month-by-month basis and, on the average, was lower than last year by a factor of 2.

What must be regarded as among the most unfavorable changes in the labor market in Russia, so the Mintrud RF's [Russian Federation Ministry of Labor] specialists believe, is the continuing increase in unemployment in the so-called disaster areas which include, for example, Russia's Ivanovo, Pskov and Kostroma oblasts.

With respect to the 1996 forecasts, in the specialists' opinion, no significant changes will occur in the labor market in Russia. The maximum level of the official unemployment is being estimated at 3.53 million persons. And, according to the optimistic version, it will fluctuate between 2.95 million and 3.4 million persons.

In the coming year, the problem of funding will become especially acute for Russia's Federal Employment Service.

Fedor Prokopov, the head of the GSZ RF [RF State Employment Service], believes that the situation has become aggravated in connection with the fact that the RF State Duma recently passed a law on tariffs, according to which, the payments to the employment service were reduced from 2 percent to 1.5 percent. This will lead to the fact that the losses of the employment fund's budget in 1996 will amount approximately to 2.5 trillion rubles. In addition, the State Duma has not solved the problem of the sharp differentiation in the employment fund's financial support on a region-by-region basis. The fact is that only 20 percent of the funds are subject to redistribution, while the remaining funds remain at the disposal of the territories. This is leading to the fact that the federal portion of the fund does not suffice for the normal funding of the individual regions with a high level of unemployment, while surpluses of unused funds are accumulating in the most prosperous regions.

The most satisfactory situation in the labor market at the present time is in Moscow. A tense situation remains, just like at the beginning of this year, in Pskov and Ivanovo oblasts, the Republic of Dagestan, Yaroslavl Oblast and the Caucasus. According to the latest data, official unemployment in the Republic of Ingushetia is approaching 20 percent. There is currently nothing surprising in the fact that the unemployment level may reach 28 percent in individual populated areas, where the situation depends on a single employer, for example, an enterprise, around which a town is built.

Despite the limited resources and the production drop which continued over the course of 1995, all the same, on the average for Russia, we managed to achieve an unemployment level which was lower than that in almost all the countries of Central and Eastern Europe, where the average unemployment level ranges from 8 percent to 16 percent. According to the service's forecasts, it may be expected in 1996-1997 that the first signs of economic stabilization will not bring about tranquillity in the labor market.

The Federal Employment Service's role during the consideration of the question of bankruptcy is big. It has considered and will consider bankruptcy not as certain conscientious actions for the elimination of an enterprise, but rather, as one of the possibilities for ensuring the survivability of these enterprises. According to the Federal Employment Service's forecasts, bankrupt enterprises will "produce" around 20,000 persons. In accordance with legislation, the process for the elimination of an enterprise does not assume the instantaneous elimination of the enterprise and the firing of associates. Nevertheless, in 1996, a drop in the number of personnel will continue for the greater part of the economy's sectors. In industry, trade, communications and transport, a small reduction in the number of workers will occur.

Employment stabilization is expected in agriculture, forestry, the information and technical services sectors, geology and surveying, housing construction, education and culture. A reduction will occur in 1996 in the number of workers of organs of state administration and this trend will continue in 1997. The reduction will amount to around 100,000 people in 1996 and 100,000 in 1997.

The most complicated situation in 1996-1997 will continue in the light and textile industries — approximately 100,000 people in these sectors will lose their jobs. Serious problems are expected in machine building and metalworking — a reduction of approximately 400,000 people.

For the RF's regions, an unemployment level above 9 percent is expected. Under the most adverse circumstances, the unemployment level in some regions may reach 30 percent.

At the present time, the State Unemployment Service lacks the funds for the normal and timely payment of unemployment benefits, not to mention the creation of jobs, retraining and other costly programs. Today in the problem regions, only the payment of unemployment benefits is being funded and the Federal Employment Service's main basic services are being supported: the selection of a trainee position or a job, counselling and material support for low-income famililes.

Today in Russia, a widespread Federal Employment Service network has been established — in addition to the central staff, there are 89 regional organs, 2,390 municipal and regional employment centers, 54 branches and 52 training and methods centers. At the present time in Russia, there are more than 200 clubs which are helping in job searches. The weekly clubs for the acquisition of job skills are leading to positive results: more than half of those who have taken the courses are finding work for themselves on their own.

Once additional financial resources become available, the service's next priority will be job creation, primarily in the sphere of small business.

[Boxed material follows]

—According to the data of the RF Employment Service and the Goskomstat [State Committee for Statistics], the rate of growth of unemployment has decreased significantly. The number of officially registered unemployed persons in Russia, according to the forecasts of the RF Ministry of Labor's specialists, did not exceed 2.3 million people by the end of 1995. At the same time, on the whole, the number of employed persons in the economy will decrease over the year by 1.4 million people and will amount to 67.1 million Russian citizens.

—At the direction of the State Employment Service, in January-October of 1995, 329,000 people underwent training for new, market-competitive professions (specialties), which is more in comparison with 1994's similar period by a factor of 1.7.

—Over the course of 9 months of 1995, 309,100 people participated in public work (more in comparison with last year's similar period by a factor of 20). [End of boxed material]

Minister Saltykov on Science Budget

964F0736A Moscow PRAVDA in Russian 21 Dec 95 p 2

[Interview with Minister of Science and Technical Policy B.G. Saltykov, by PRAVDA correspondent Anatoliy Pokrovskiy; place and date not given: "Decrees Come Out: Will Science Survive? Scientists Ask the State Duma"]

[FBIS Translated Text] On the eve of the elections, along with pensioners, the military, and unfortunate depositors, scientists got their share of promises, too. Long overdue. According to different data, financing of scientific research over the past few years has been cut by a factor of 10 to 30. And in Russia's aggregate pay roster, among the 12 leading professions in the national economy scientists are 11th—ahead only of culture workers.

Now recently, at its first meeting, the government commission on science and technology policy (it turns out there is one now) approved a so-called development doctrine for Russian science. It sounds lofty, but behind it is a so far unreachable goal—to appropriate for scientific development 3 percent of all budget appropriations. Of course, this is a jump up from the 0.32 percent of the gross national product that was parceled out to science last year. A jump....to the so-called "times of stagnation," when our scientists regularly received precisely this 3 percent—which, by the way, their colleagues in the United States, Germany, and South Korea continue to receive.

It appears, however, that the government wants to accomplish even this "leap" across the abyss in several steps. In any case, Prime Minister V.S. Chernomyrdin, who chaired the commission meeting, noted that the state does not have the resources to support inefficient science organizations. (What efficiency they expect of astronomy, mathematics, microphysics, and so on is not explained.) There is, however, a clarification—resources should be concentrated only on priority lines, in particular, those that are of international significance.

In conclusion, the prime minister said that in the draft budget for next year's expenditures on support of science "have fallen short of 3 percent, but in the course of working on it, the figure will be increased."

A little earlier, at the end of September, a government decree "On State Support for Leading Science Schools in the Russian Federation" came out. It is full of good intentions. Such as preserving scientific potential and preventing the migration of leading scientists abroad. As well as increasing the level of scientific research and training specialists possessing the highest scientific skills. As well as incentives for the development of fundamental and applied research, and even raising the prestige of scientific work and creating decent living and working conditions for scientists.

Naturally, the main burden of implementing the government script falls in this case onto the shoulders of the Ministry of Science and Technical Policy. This is what Minister B.G. Saltykov told a PRAVDA correspondent in this connection:

"The budget for science approved by the Duma has been executed to the extent of 63.3 percent. This is, as the saying goes, the average temperature in our hospital. Of the 6.9 trillion rubles [R] also approved by the Duma, R3.7 trillion has been issued. It is clear to me that full budget execution is impossible. I do not envy the Ministries of Finance and Economics. Believe me, every other day I begin my morning by calling these ministries. But science is not the only one begging.

[Pokrovskiy] In postreform Russia, science is often accused of not downsizing even a little—there were 4,000 institutions, and now there are even more....

[Saltykov] Science today has found itself in different economic conditions, with different resources, in a different environment. At our request, the VTsIOM [All-Russia Center for Public Opinion Studies] conducted a survey, in which Russians maintain that the role of science in the world is growing, while in Russia it is declining. To the question as to whether science is a lucrative occupation in Russia today, 6 percent answered affirmatively, but almost half the respondents wanted to see their son or daughter in science. Which means that at this point work in science is still respected here.

[Pokrovskiy] What impact have the reforms had on the development of Russian science?

[Saltykov] Science has been demilitarized; it has opened up to the world and creative freedom—not in words but in the form of creating structures to support it; it has been deideologized, and a new legislative base has been created. And, of course, privatized, as the inevitable result of privatization in society. Although we understand that a considerable share of sectoral science in a normal market environment simply comprises science-intensive companies.

Having created a system of foundations, we have created a system of real support for free creativity in science and the implementation of a competition system, and strengthened priority financing at the top—not basic, or departmental, but through programs. And in the network of science institutions we have implemented a system of state scientific centers. That is, we selected 61 large science institutions of world significance, which we support.

There have also been failures. I believe that we have done very poorly when it comes to creating a legislative base. Some want to preserve the old system of relations, including property relations. We, on the other hand, try to make it fit the new realities. The old system does not permit us to restructure the old-time monsters. So now, instead of civilized restructuring, we are simply losing some institutes because the best people leave. Or tens of small businesses get set up outside the framework of such an institute, where people get their salaries. There is a great danger in the position of applied science, and technology research. The lack of a legislative base has resulted in the fact that today we have a "technological" drain along with a "brain drain."

What we should be afraid of is not the export of state secrets— this system, thank God, is intact—but the loss of commercial secrets, the huge intellectual potential, which at least could be sold at a higher price.

We have now submitted a proposal to the government on how to at least organize licensing, a permit-based or perhaps registration- based procedure for contracts.

[Pokrovskiy] What can you say about the recent government decree "On Support for Leading Science Schools"?

[Saltykov] This effort has been underway for more than a year now. The idea was to set up a fund that would pay rather substantial targeted allowances to the leaders of our most prominent schools of science. Finally, the decree came out. The budget has a line item providing support for such a fund. There will be no special fund set up—the money will be distributed through the Russian fund for fundamental research. The recipients are selected according to formal scientific attributes—number of publications, etc. About 6,000-7,000 such prominent scientists will be getting stipends through this line item, which can be used, among other things, to support their graduate students.

[Pokrovskiy] Boris Georgiyevich, what is this endless bickering between parallel science-administration structures?

[Saltykov] There is the prime minister's commission, and there is the Council for Science and Technology Policy Under the RF President.... Quite often decisions are issued that either are in conflict with current legislation or "fall" outside the budget. We need coordination in order to avoid discord.

[Pokrovskiy] So, what realistic way do you see for getting science out of the crisis?

[Saltykov] One of them is the creation of technologies, real products for industry. One of the ways of preventing unemployment in science is to create small innovation businesses on the basis of first and foremost sectoral institutes. There is a lot of chaos there. We have already created three funds that would provide targeted support for development capable of creating new jobs, creating new technologies.

[Pokrovskiy] How could the results of the State Duma elections affect Russian science?

[Saltykov] I think that the only thing that unites even the most polarized parties is concern for science. From the extreme left to the right wing of the Duma, all programs are aimed at supporting science. In this case, the task is to have these intentions implemented.

*Trade, Industry Chamber on State of Entrepreneurship

964E0404A Moscow KOMMERSANT-DAILY in Russian 22 Dec 95 p 3

[Article by A. Volynets: "Trade, Industry Chamber Cites 1996 Lobbying Plans"]

[FBIS Translated Text] **It has become a tradition to wish the president and the government Happy New Year. In the Trade and Industry Chamber it is done in the form of an annual report containing an evaluation of the economic policy carried out by the authorities. Just such a report entitled "Russian Entrepreneurship" was approved yesterday at a session of the Chamber Board of Directors. The most noteworthy event at the session was the announcement**

made by the Chamber leadership that in the new year it will greatly intensify its activity in lobbying the interests of entrepreneurs in organs of legislative and executive power.

The Russian TPP [Trade, Industry Chamber] has long been one of the most active supporters and defenders of the interests of Russian entrepreneurs in organs of legislative and executive power. The last Board of Directors meeting of the year, held yesterday, was devoted to just such issues. Last year for the very first time the annual report of the Chamber on the state of entrepreneurship and measures needed to support it, was sent to the president, the government, and parliament. Some 23 unions and associations of entrepreneurs took part in the compilation of that document. This year there are even more of them—30. On the whole the entrepreneurs had a positive evaluation of the government economic policy in 1994, but warned that the Cabinet must resign if it does not improve its work in the conduct of economic reforms.

At yesterday's session of the Chamber Board of Directors representatives of commercial structures and regional departments of TPP spoke mainly about the fact that their hopes for liberalization of working conditions have not been completely fulfilled, even though they did not grow more rigid. It is true, the question regarding taxes, which are preventing development of production and do not promote the attraction of direct foreign investments, is still a painful one. Recommendations contained in the report are unequivocal: in the New Year the government and president must initiate measures to support highly effective and export-oriented enterprises, as well as the new production structures which are forming. It is highly important to focus attention on small and medium-size business and resolve the problem concerning redistribution of capital from the sphere of circulation into the sphere of production while also creating favorable conditions for Russian and foreign investors. Stanislav Smirnov, president of the Chamber, summarized his wishes in a speech: the first group of entrepreneurs from the time of perestroyka has already exhausted its potential and authorities must let it be understood that in the New Year they will support the new generation of businessmen.

TPP leadership evaluated its activity in 1995 in a self-critical manner, even though it did not belittle its achievements. For example, it was not without the cooperation of the Chamber that the State Duma adopted the law on the Kaliningrad Free Economic Zone. Nevertheless Chamber officials believe that they are still not making full use of all the reserves available for supporting entrepreneurship in the country. The principal shortcoming is the insufficient influence that the Chamber exerts on the process involved in adoption of decisions by legislative and executive organs. It is all the more important to correct that since the Duma will now have a communist majority.

In order to increase the effectiveness of mutual interaction with legislators and executives it was decided at the board of directors session to create a council for mutual interaction with organs of power. It is not precluded that in 1996 TPP will also attempt to implement proposals, voiced in the course of the session, to include observers from the Chamber in the main legislative and executive organs of the country.

*Federation Council Vetoing Bill on Precious Metals

964E0384A Moscow KOMMERSANT-DAILY in Russian 20 Dec 95 p 2

[Article by Boris Boyko: "The Upper Chamber Supported the State and Did Not Support the Lower Chamber"]

[FBIS Translated Text] **The temporary absence of the lower chamber of parliament did not interfere with the productive work of the upper chamber after the president extended its term until the middle of January. At its meeting yesterday, the Federation Council managed to discuss the law on the federal budget for 1996 and around 10 other bills. Only one—the bill "On Precious Metals and Precious Stones"—was rejected "because some of its provisions are unacceptable" (the phrase most despised by the deputies of the Fifth State Duma).**

We should recall that the purpose of the law was the establishment of a legislative basis for the pursuit of state policy in the extraction, production, and use of precious metals and precious stones. According to the law the State Duma passed, precious metals and stones would be the property of the state and their extraction would be confined to legal entities with special licenses. The mined precious metals and stones would be sold primarily to the government for the replenishment of state supplies and to the Central Bank for the augmentation of Russia's gold reserve. The law specifically entitles the government to issue state bonds secured by the precious metals. In the event of the urgent need for financial resources, the president, according to this law, could have made the decision to sell part of the gold reserve, although this decision would have had to be endorsed by the legislators.

In spite of the priority this law assigns to the state, the Budget Committee of the Federation Council listened to the opinions of Roskomdragmet [RF Committee on

Precious Metals and Precious Stones], the Ministry of Internal Affairs, and the Legal Administration of the upper chamber, which found significant flaws in the document and recommended that the senators reject the bill. The main objections to the bill stemmed from the traditional struggle between commercial structures and state agencies for their own interests. In this case, it was the familiar struggle between Roskomdragmet and the "Almazy Rossii—Sakha" company. We should recall that the Duma conference commission took half a year to compile the final draft of the law on the basis of two bills: the presidential bill and the bill introduced by the Republic of Sakha-Yakutia. During the debates, each side defended its own bill and accused the other of trying to gain sole control over the production of precious metals. The usual result in situations of this kind is that if one side is still dissatisfied with the degree of compromise after the law has been passed in the Duma, it will try to block the law in the upper chamber. After this, a conference commission is formed and the search for a compromise continues. That is what happened yesterday.

Let us return, however, to the objections. Roskomdragmet, for example, felt that the law would not establish the state's monopoly in diamond exports, as it says, but would actually discontinue it. The text refers only to a monopoly in the official approval and stamping of articles made of precious metals. According to Roskomdragmet, Russia would thereby lose its exclusive right to conclude agreements to regulate the world diamond market. The right to conclude these agreements would be transferred to the "Almazy Rossii—Sakha" and De-Beers companies. Besides this, Roskomdragmet pointed out the fact that this law stipulates only that the international agreements of Russia and federation members with foreign states and legal entities on the extraction, production, use, and distribution of precious metals and precious stones must be submitted to the government and evaluated by Roskomdragmet. This would not apply to agreements between Russian and foreign legal entities. All of this, in the committee's opinion, could "transfer state policymaking in the sphere of diamond market regulation to the 'Almazy Rossii—Sakha' company." The committee had a simple proposal: The law must establish a state monopoly in the regulation of relations in the prospecting of deposits of precious metals and precious stones, their extraction, their production, their use, and their distribution. Besides this, the committee proposed a monopoly in the sale of platinum metals, because the world market for these metals is limited and therefore necessitates strict state export controls.

The law will be discussed by the conference commission after the new parliament begins its work. It is possible, therefore, that it will not be passed in the next few months.

[Boxed item]

Main Objections to Law "On Precious Metals and Precious Stones"

Roskomdragmet:

The law would discontinue the state monopoly in diamond exports;

Agreements between Russian and foreign legal entities would not have to be submitted to the government or be evaluated by Roskomdragmet;

A section should be added to the bill to establish the state's monopoly in the regulation of relations in the exploration of deposits of precious metals and stones and their extraction, production, use, and distribution;

There should be a state monopoly in the sale (or export) of platinum metals.

Ministry of Internal Affairs:

The law does not endow federal agencies with the right to oversee operations with precious metals and precious stones;

The law would take the circulation of precious stones unsuitable for jewelry manufacture out of the control of the state, but these stones are categorized as forex assets in the law "On Currency Regulation and Currency Control" and therefore should be subject to state control.

*Decree on Market Development of Precious Metals Viewed

964E0425A Moscow NEZAVISIMAYA GAZETA in Russian 28 Dec 95 p 4

[Article by Pavel Chuvilyayev, under the rubric "Initiative": "The Government Is for a Precious Metals Market—Federation Council Deliberates"]

[FBIS Translated Text] The situation on the Russian market of precious metals and stones has been very neglected until recently. Numerous normative documents of a temporary nature frequently provided no answers to questions arising in practical work. Fortunately, the situation has now changed. At the end of November 1995 the Russian Federation Government issued Decree No. 1157 "On Additional Measures in Developing the Precious Metals and Stones Market in the Russian Federation."

This document substantially expands the list of transactions with precious metals and stones permitted on the territory of Russia. In particular, transactions involving platinum in bars and finished items and providing access to the precious metals and stones market to individuals; it also envisages the creation of specialized exchanges, as well as the issuance of certified gold, silver, and platinum bars in amounts from one to 50 grams. Probably the next step will be the creation of a secondary market of vouchers, certificates, or other securities for these bars of sufficiently small gold equivalent.

The arrival of the new "gold" instruments onto the securities market could breathe life into this sphere. If "gold" securities become bearer securities, which is almost inevitable, this pick-up will become a long-term factor in market development and will give it needed stability. Because the safety of "gold" securities is much higher than that of the polygraphic output of pyramid structures, which produced the previous market pick-up. Plus, the issuance of gold-backed securities will be naturally limited. I believe that in time, "gold" instruments will become a routine means for the Russian middle class—people who prefer highly liquid securities of average yield—to invest their savings.

Decree No. 1157 also stipulates that at this point "no more than five specially authorized banks with experience in operations with precious metals" will be exporting gold and silver bars. The Central Bank has been instructed to determine, jointly with the Ministry of Finance, which have the best experience.

The ARB's (Association of Russian Banks) precious metals section is currently working on a definition of the criteria for selecting banks to participate in the experiment.

Those that initially do not make it to the coveted five should not despair, however. Obviously, five banks, no matter how large and experienced, cannot represent the whole country on the world market. Which means that the experiment with authorized banks cannot last long. Having accumulated the information needed to draft quality normative documents regulating this activity, the government will most likely permit other Russian banks access to the world market.

Decree No. 1157 also envisages drafting within the next two months a tentative statute on deals involving natural precious stones and pearls. If everything goes according to this schedule, as early as in the second quarter of 1996 a new interesting segment may emerge on the precious metals market.

The precious metals market needs, of course, rules of operation, which should be approved by the Central Bank. They should regulate the safekeeping and transportation of metals, as well as the terms on which banks can accept metals for safekeeping, including from individuals. Payoff and accounting for securities with face value in metals and payments on them also would preferably require the ability to store the metals. But where to store them? Not all banks will want to accept such responsibility. Which means that depositories will be set up. No statute on "metals" depositories has been drafted, however. Transportation of precious metals and stones is a particular problem. Most likely, a separate license will be required for this type of activity.

Will banks be permitted to issue their own precious metal bars and coins? Apparently, yes. However, each bar will have to bear a GOST [State All-Union Standard] or some other mark of assay control. In Russia, bar testing and control over quality is the responsibility of Roskomdragmet [Committee on Precious Metals and Precious Stones], which makes sense. However, if banks begin issuing their own bars, they may not accept the prices at which Roskomdragmet will offer its services. This will have to be regulated.

A draft document most fully addressing all the aforementioned questions has been prepared by the Association of Russian Banks. Currently this draft has been sent to the Central Bank for discussion and coordination. If the Central Bank agrees with the ARB's opinion, it will not have to later issue numerous additional instructions explaining practical questions of operations with precious metals.

The issuance of the decree on precious metals will turn a new page in the development of the market. However, no decree, even the best, can replace a pertinent law. Only a law can set forth who owns the precious metals produced. Right now the state is considered the sole owner, but this is not a market principle. If enterprises themselves become owners of the metal produced, and banks have the ability to purchase precious metals and stones directly from the producers, competing with the state, the market of precious metals in Russia will earn the description civilized. Of course, state reserves are necessary, which means mandatory sale of some of the metals produced to the state. However, this should fall within a firm quota, set once and for all by the law, and everything produced in excess of this quota will form a free market. A law on his subject went through all three readings in the State Duma, but was rejected by the Federation Council. Russia once again lost its chance to quickly build a successfully functioning market—the "point of growth" so needed by the Russian economy.

*Draft Law 'On Precious Metals' Seen as Having Antimarket Implications

964E0423B Moscow DELOVOY MIR in Russian 28 Dec 95 p 1

[Article by DELOVOY MIR correspondent Larisa Ilina: "This Precious, Precious Raw Material. To Whom Does It Belong?"]

[FBIS Translated Text] The new makeup of the State Duma must return again to the discussion of the draft Law on Precious Metals and Precious Stones, inasmuch as that draft which was passed by its preceding makeup on three readings has been rejected by the Federation Council which had extended its own work. It must be acknowledged that this action of the senators was unexpected for many people. After all, the consolidated version of the law signifies by itself the affirmation of market priciples, thereby producing a chance for the revitalization of the domestic extraction sector. In addition, it expands the rights of federation components, making it possible for them to raise their own gold reserve. But, perhaps, the senators' heads in the last few days of the soon-to-end year were occupied with their own problems and many did not even have enough time to attend the session, thanks to which, the lobbying for the amendments inserted by the Komdragmet RF [Russian Federation Committee on Precious Metals and Precious Stones] turned out to be quite successful.

The volume of the amendments is small, but their content changes to a great extent the essence of the law, turning the sector away from the market and placing it again under the firm hand of a Moscow bureaucrat.

For example, the fundamental question of the ownership of the precious metals and stones, which is treated in Article 2 as "the ownership of the extraction elements," proposes the stipulation of exceptions in the form of "deliveries of output for state federal needs." It follows from this, it must be assumed, that what the state wants to obtain is no longer owned by the extractor, as it were. In Article 11, where the powers of the government are mentioned, words have been added about the fact that the government shall establish the procedure for the exporting and importing of a precious raw material, i.e., it seemingly deprives the producer of the right to the final stage of work — the sale of his own output. A paragraph is inserted into that same article, according to which, the government "shall ensure the deliveries of precious metals and precious stones for state federal needs," although it is not explained how it "shall ensure" — either by purchases, as proposed previously in the Duma's draft, or by simple confiscation from the extractor. Seemingly, it is a matter of the latter, if judgment is made based on Article 10(1) added by Nikolay Gonchar's committee. It is even called outright — "The state monopoly...," which extends to everything — from the geological surveying to price formation and from the refining of precious metals to the exporting of diamonds — and is implemented "through specially authorized federal organs or federal unitary (public) enterprises." However, words have been inserted into Article 27 on the procedure for exporting a precious raw material that these transactions are to be carried out by organizations "authorized by the RF Government."

So here is the crux of the matter! The Committee on Precious Metals and Precious Stones simply does not want to let the trade in precious raw materials slip out of its own hands, desiring to leave to the extractor only the disfranchised function of a "hole digger." The previous Duma did not support these bureaucrats' aspirations, especially since the fallaciousness of the state monopoly practice had been far too graphically illustrated in recent years by the catastrophe in gold production. Now they want to push the idea through the Federation Council. For the Almazy Rossii-Sakha (ARS) [Russia-Sakha Diamonds] company, which mines almost all the indicated raw material in the country, this would be a terrible loss of its hard-won independence, which may threaten all the work of miners. It is interesting that, in the explanatory note signed by N. Gonchar, it is stated that the law passed by the Duma is apparently bad because it "abolishes the state monopoly on diamond exporting." But, indeed, the Committee on Precious Metals and Precious Stone itself abolished this monopoly privately, when it sold its remaining reserves of diamonds outside the single-channel exporting system which the Russia-Sakha Diamonds company had implemented by an edict of the RF President! The Committee on Precious Metals and Precious Stones also exported the stones through phony quid-pro-quo deals with dummy firms like the notorious Golden ADA in the USA and through fictitious diamond-cutting SPs [joint ventures] which arose in abundance under the wing of that same committee. However, enough has been written about all this in the press, so that it is hardly worth repeating.

Will the mercenary interest of the high-ranking bureaucrats succeed in getting in through the window, where it has been turned away at the door? Perhaps the answer to this question will be a test of the wisdom of the new group of legislators. But, if the departments overpower the producers after all, the fruits of this victory will be bitter — you will see, soon there will be nothing either to distribute or to resell.

*Caspian Area Oil Deposits Development Analyzed

964E0383A Moscow DELOVOY MIR in Russian
20 Dec 95 p 1

[Article by Oleg Dorozhovets: "Caspian Oil Is Fermenting in the Belly of Russia"]

[FBIS Translated Text] **The Azerbaijani International Oil Consortium is known to have chosen the route by which it will send its oil to Europe. The route will have two branches: One will run from Azerbaijan through Russian territory to Novorossiysk on the Black Sea, and the other will run through Georgia to the Turkish port of Ceyhan on the Mediterranean Sea.**

What made the consortium partners choose these routes? In our opinion, this was the only compromise which was agreeable to all of the founders. There are 11 of them in the consortium: five American companies (the largest are Amoco and Exxon), two British firms (British Petroleum and Remco), Russia's "LUKoil" (10 percent of the charter capital), Turkey's Turkish Petroleum, one Norwegian company, and one Arab firm.

On the map it is possible, of course, to chart two other possible routes for the shipment of oil from Azerbaijan: One would run through Armenia and Turkey and the other would run through Iran and Turkey. Laying a pipeline from Azerbaijan through Armenia, however, would presuppose the end of the Karabakh conflict, and a pipeline through Iran would require friendly relations between Hashemi-Rafsanjani and Bill Clinton. Neither of these, however, is anticipated in the near future.

The Iranian-Turkish route would be most advantageous for Ukraine. Kiev has no political quarrels with the states through which it would run. Bilateral relations with them are developing smoothly and quickly. Neither the Iranians nor the Turks are the targets of such strong Russian influence as the Caucasian republics of the former USSR. In the economic context, Ukraine would have to complete the construction project for the pipeline branch from Kirikkale to Samsun (the Ukrainian "Ukrsakordonnaftogazbud" corporation and the Turkish BOTAS firm are supposed to begin the construction next year), with access to the Black Sea, and build the Odessa terminal on the opposite side. The last link of this petroleum chain, the Odessa-Brody pipeline, running to the Ukrainian-Polish border, is already being built.

There is also another new gigantic oil deposit, however—the Tengiz deposit in Kazakhstan. Preliminary estimates put its reserves at around 4 billion barrels of oil. Carrying out this plan would entail difficulties, however, because the only route for the shipment of the oil would run through Russia, and it sets limits on transit shipments. Obviously, it would be inconvenient for Moscow to allow a strong competitor access to Europe. In this context, the construction of the Caspian pipeline in Almaty, with minimal Russian control, is seen as a panacea. Judging by the proposed volume of investment in the Tengiz deposit, Chevron is unlikely to balk at spending another 100 or 200 million dollars for a pipeline connecting Kazakhstan with the Caspian zone.

At the beginning of October Kazakhstan's Foreign Minister Kasymzhomart Tokayev held a press conference in the National Press Club of the United States and spoke at length about the construction of a pipeline connecting the oil deposit in the Tengiz region with Mediterranean ports. In his opinion, the most reasonable route would run from Kazakhstan to Turkey through Turkmenia, Azerbaijan, and Georgia. Other routes (Kazakhstan-Turkmenia-Azerbaijan-Armenia-Turkey, Kazakhstan-Turkmenia-Azerbaijan-Iran-Turkey, and Kazakhstan-Dagestan-Turkey) are less practical because they either cannot bypass the zones of military conflict or will be too vulnerable to political disagreements between the governments of the states which will be building the pipeline and through which the pipeline will run. The Kazakh Government's plans also include the option of building part of the Tengiz pipeline along the bottom of the Caspian Sea to Azerbaijan, bypassing Turkmenia, and the shipment of oil from there to ports in Georgia and then to ports in Turkey and Ukraine.

No one could say that Ukraine has made no effort to get closer to the Caspian and Tengiz oil deposits. During trips to Baku and Tbilisi, Ukrainian President Leonid Kuchma discussed the establishment of an interstate Azerbaijani-Georgian-Ukrainian transport holding company for the shipment of oil and other freight to the Caspian and Black Sea region. Ukraine is willing to help Turkmenia build a gas pipeline connecting this Central Asian country with Europe. Ukraine, Turkmenia, and Iran have already signed a tripartite memorandum on this project. Furthermore, Ukrainian firms are already building local gaslines in Turkmenia.

All of these fine plans will take a long time to materialize, because the states with an interest in these projects lack the necessary funds, persistence, international prestige, and mutual understanding. In this context, many experts believe that the actual economic impact of the Odessa terminal will not be as great as the anticipated one. Obviously, in time it will help Ukraine make the move to alternative energy sources, but will it ever turn Ukraine into an self-sufficient state through which energy resources will flow to Europe? Russia will always try to impede this. After all, if it loses its monopoly in exports of oil and gas from the post-Soviet territory, it will lose a sizable portion of its foreign currency receipts and its political control over the CIS region.

LUKoil, Azeri Contract Details Explained

964E0390A Moscow DELOVOY MIR in Russian 22 Dec 95 p 2

[Interview with Vladimir Ivanov, deputy general director of the LUKoil-Baku, conducted by Vladimir Mishin, DM correspondent: "LUKoil Comes With Good Deeds"]

[FBIS Translated Text] **The Russian LUKoil Oil Company Joint Stock Company began its activity in Azerbaijan in September 1993 with the signing of a framework agreement with the State Oil Company of the republic, which specified joint prospecting, exploring and developing of the oil deposits of the Caspian Sea. The joint Azeri-Russian venture, Azeri-LUKoil, was organized for practical realization of these plans.**

Later on, in 1994, the LUKoil NK AO [Oil Company Joint-Stock Association] became a member of an international consortium, created to develop and put into operation the Azeri and Chirak oil and gas deposits and the deep-water part of the Gyuneshli deposit, the total oil reserves of which are estimated at approximately 530 million tonnes. LUKoil's share participation in this project is, as we know, 10 percent.

Finally, on 10 November 1995, a contract was signed in Baku to develop the Karabakh oil deposit. LUKoil was also one of the participants in this agreement.

For reference. The contracted area of the Karabakh deposit is 4,200 square km. The average bottom depth is 170 m, and the oil reserves, determined from the results of three-dimensional seismic prospecting, are approximately 83.5 million tonnes. The capital outlay to extract this oil is now estimated as U.S.$1.7 billion, and the operational costs — as $1.3 billion. The Russian LUKoil has the highest percentage of share participation in this project — 32.5. Behind it follow the American Pennzoil — 30 percent, the Italian Agip — 30 percent and GNKAR — 7.5 percent.

In the first eight years that the contract is in force, the profit from putting it into effect will be divided up in the ratio of 50 percent to Azerbaijan and 50 percent to the rest of the participants in the agreement. In the next 22 years, Azerbaijan's share will be 80 percent, and the foreign investors' share, accordingly — 20 percent.

The oil bonus obtained by Azerbaijan for development of the Karabakh deposit by the new international consortium equaled $105 million. And the latest — the Russian LUKoil will most likely become, along with the British-Norwegian alliance BP-Statoil and the Turkish company TRAO, a participant in a third international consortium, set up in Baku to develop the Shakhdeniz oil and gas deposit, the reserves of which are estimated at 300 million tonnes. LUKoil's share participation in this project is at least 20 percent.

All this, however, for the time being exists only as plans which are to be carried out. We talked with Vladimir Ivanov, deputy general director of the LUKoil-Baku AOZT [closed-type joint stock company], the regional structure of the LUKoil NK AO, about LUKoil's activity in Azerbaijan today.

[Mishin] Vladimir Konstantinovich, since specific people are dividing up specific work, let us first of all define more precisely the number of LUKoil-Baku employees.

[Ivanov] At present there are over 100 people working at the LUKoil-Baku AOZT.

[Mishin] Are they Russian citizens?

[Ivanov] They are citizens of both Russia and Azerbaijan.

[Mishin] Just what have you succeeded in doing here in Azerbaijan by the end of 1995?

[Ivanov] Well, for example, building and putting into operation the first refueling complex in Baku that meets world standards.

Further. In executing the agreement between the government of Azerbaijan and the LUKoil AO, we established a satellite communication terminal and it is continuing work on renovating the Baku ATS-92.

In addition, our associates have worked out plans to load the idle oil-refining capacities of Azerbaijan with customer-supplied raw materials, and the Baku plants are now refining oil purchased by the LUKoil-Baku AO from foreign companies and joint ventures, true, in small amounts for the time being — about 2,500 tonnes a month.

Although we are talking about LUKoil's specific activity in Azerbaijan, I still cannot help telling you about a very interesting project in the sphere of construction: LUKoil is planning, in the very near future, to start investing in the renovation of the Gek-Gel Hotel, one of the oldest in Baku, located in the very center of the city, for offices.

[Mishin] Mr Vagit Alekperov, president of LUKoil, recently stated that your company could not have done such successful work in the "Country of Fires" without the support of Geydar Aliyev, president of Azerbaijan.

Russia, however, has always answered a good deed with a good deed....

[Ivanov] LUKoil has too. Moreover, the company and its regional structure, in the person of the LUKoil-Baku AO, are promoting in every way the establishment of close ties between the peoples of Russia and Azerbaijan. We helped to distribute in Azerbaijan a beautiful Russian edition of "Nashe naslediye" [Our Legacy], which tells about Russia's culture, we organized a number of appearances by Russian artists in Baku, we contributed to publishing the works of Azerbaijani scientists and helped the independent association of researchers of Azerbaijan's history. In April 1995, in conjunction with the Italian oil company Agip, we gave Azerbaijan humanitarian medical assistance — six tonnes of medicines, worth a total of U.S.$300,000. One-third of these medicines were turned over to a hospital for oil-refinery workers. We promoted the appearance of the children's ensemble, "Dzhudzhayarim," in Turkey, of young performers from the music academy in the Azgosfilarmonia, and the singer V. Pashayeva in a Baku church. Well, and then the 1995 super-finals of the KVN "Odesskiye Dzhentlmeny" [Gentlemen of Odessa] and "Parni iz Baku" [The Boys From Baku], held on 2 September at the Baku Palace of the Republic, would not have taken place without our support.

We all remember the November tragedy on the Baku subway. LUKoil gave $9,000 worth of foodstuffs to the families of the victims.

[Mishin] Vladimir Konstantinovich, does it not seem to you that Russian companies today are perhaps among the few real levers of support for their countrymen in the near abroad?

[Ivanov] You are absolutely right. That is the reason why LUKoil pays close attention to the Russian community in Azerbaijan and to one of its real cultural centers — the Russian Theater of Drama imeni S. Vurgun.

Incidentally, the board of the LUKoil NK AO now has a plan to carry out in 1996-1997, in conjunction with the Russian community, the Slavic Cultural Center and the RF Embassy in Azerbaijan, a number of different measures, for which we are slated to allocate the necessary financial resources.

[Mishin] In other words, LUKoil's main activity in Azerbaijan lies ahead.

[Ivanov] Yes, essentially, we are only beginning our work here. Moreover, the development of the oil and gas deposits, machine building, the repair of the oil-field equipment — this is only one aspect of it. The other is the entire multi-measure complex of cultural ties between the peoples of Russia and Azerbaijan.

LUKoil, Mariy-El Republic Sign Contract

964E0389A Moscow KOMMERSANT-DAILY in Russian 19 Dec 95 p 9

[Article by Aleksandr Tutushkin: "LUKoil Gets Foreign Markets Without a Fight"]

[FBIS Translated Text] **The LUKoil Company continues a "subscription campaign" to conclude agreements on cooperation with regions of Russia and the former USSR. A week ago, KD reported the conclusion of this sort of agreement with Moldova, and last Saturday, Bagit Alekperov, president of the company, and Vladislav Zotin, president of the Republic of Mariy El, signed a similar document. Since one of the main directions of the activity of the oil industry workers in the republic, according to the agreement, will be supplying oil products, LUKoil will inevitably come into competition with the NORSI-Oil Company, which the federal government established as the official supplier of Mariy El.**

Since LUKoil had already signed analogous agreements with virtually all the republics of the former USSR and a number of Russian autonomies, the agreement with Mariy El might have been considered a routine event, if it had not created the precedent of a competition between the two Russian oil companies on the domestic market. The point is, the agreement, just as others like it, specifies the supply of oil products from LUKoil, but the territory of Mariy El is officially included in the zone of operation of another company — NORSI-Oil, since a government decree included in it the republic's sales enterprise, Mariynefteprodukt. To the question asked by the KD correspondent, did the agreement with LUKoil not mean that the republic would not rely on its official supplier, Mr Zotin gave the straightforward answer that the government established neither the quality nor the prices of Nizhegorod oil products. In his words, NORSI, an enterprise which had become outdated and needed renovation, was trying to solve its financial and other problems through the consumers, which would in no way suit the republic. "We now have a choice," stated Mr Zotin, "and we are making it in favor of a more advantageous supplier." Mr Alekperov, for his part, commented on the situation very laconically: "Competition is good." To all appearances, the choice of the republic's government is strategic in nature. Attesting to this, in particular, is one of the points of the agreement signed in Moscow, in accordance with which "the company is obliged to work out a regional system of oil product support for the republic." Moreover, the prerequisites already exist for setting up a sales system here, as an alternative to Mariynefteprodukt. The agreement specifies that the government transfers to the balance sheet of the LUKoil-Mariy El AO — as a share in the charter capital —the Krasnooktyabrsk and Shelangersk anhydrous ammonia bases, which are to be re-equipped for an oil storage in the future.

The role of operator of all the joint projects is entrusted to the LUKoil-Mariy El AO, planned to be set up in the near future. In addition to the oil company, the government and one of the republic's agro-industrial enterprises appear as founders.

At NORSI-Oil they regard the possible loss of the Mariy El market as something that is certainly unpleasant, but only on the moral plane. As Viktor Smirnov, director for Economics, stated to the KD correspondent, the republic accounts for about 5 percent of the total volume of NPZ [oil refinery] supplies, and their loss will not do the company any appreciable damage. Especially as, if LUKoil really takes on the job of providing the republic with oil products, it would most likely send the oil to process the products to NORSI. In this case, in the words of Mr Smirnov, the fee for processing would be, for the Nizhegorod company, an acceptable compensation for the loss of the market.

The agreement was concluded for a period of five years, at the expiration of which, if the parties so desire, it can be extended. The company will not only supply oil products to the republic, it will also take part in projects to prospect and extract oil on its territory (as Mr Zotin informed us, before the end of the year the Mariy El government will invest 1 billion rubles in geological prospecting work, and next year will begin drilling the first exploratory well). The agreement also specifies counter supplies to LUKoil of industrial and agricultural products produced in the republic.

We get the impression that the idea of competing with each other has not yet occurred to the directors of the Russian oil companies, with the exception of LUKoil. The example of Mariy El is not an isolated case. A similar situation is taking shape in Kaliningrad Oblast, where the federal government has entrusted Surgutneftegaz with providing the region with oil products. This AO, however, has hardly appeared here so far. Meanwhile, LUKoil conducted negotiations recently with the oblast administration, where it promised full provision of the region with fuel and lubricants. In connection with this, we cannot help but recall the recent Rosneft press conference, at which Aleksandr Putilov, its president, stated that today's dividing up of the oil complex into companies should not be regarded as final — in the next few years, the market will introduce new correctives into the distribution of ownership. LUKoil's aggressive trade policy shows that this process has already begun.

International Affairs

*Possibility of Russo-Ukraine Cooperation—Contrasting Views

Krasnodar-Kerch Bridge Construction Discussed

964E0406A Krasnodar KUBANSKIYE NOVOSTI in Russian 1 Dec 95 p 1

[Article by A. Kustovskiy: "Cooperation: Will There Be a Bridge?"]

[FBIS Translated Text] As we learned from official sources, it has been decided to build a passage through Kerchenskiy Bay in order to regulate economic and cultural ties between Krasnodar Kray and Crimea. This question will be resolved at the level of the governments of Russia and Ukraine with the participation of the leadership of Kuban and Crimea. Already in December, First Vice Premier of Russia O. Soskovets met with the leaders of Ukraine to resolve this problem. Perhaps both sides will raise the question of building a Crimea-Caucasus bridge.

Krasnodar, Crimea Leaders on Bridge, Cooperation, Fleet

964E0406B Krasnodar VOLNAYA KUBAN in Russian 30 Nov 95 p 1

[Interview with Ye. M. Kharitonov, head of administration of Krasnodar Kray, and A. R. Franchuk, prime minister of government of the Autonomous Republic of Crimea, conducted by correspondent A. Gikalo: "Bridge Over Kerchenskiy Bay"]

[FBIS Translated Text] **It does not exist yet, this bridge, handmade and with a road and pedestrian crossings. But we would very much like to believe that it will exist. Especially since the spiritual bridges erected by the centuries and history of two great Slavic peoples cannot be destroyed by either time or politicians. And this was proven by the new meeting of delegations from Kuban and Crimea which was held on Monday and Tuesday of this week.**

After the protocol portion, which included introductory speeches by the heads of the delegations, the signing of documents and firm handshakes, a press conference was held for journalists from the kray mass media and their colleagues from Crimea. Such a meeting was extremely necessary, since the standard title of the signed document gave no idea of the essence of the agreement. Questions of journalists were answered by Ye. M. KHARITONOV, head of administration of Krasnodar Kray, and A. R. FRANCHUK, prime minister of government of the Autonomous Republic of Crimea.

[Correspondent] We have already heard about the creation of free economic zones within the boundaries of one state. Now the discussion centers around creating a free economic zone on the border territories of two contiguous states. How do you see this?

[Franchuk] The first thing is an open credit line between the two states. The second is a passport regimen which ensures unhindered crossing of the border from one side and the other. The third is the import of goods under the same conditions. And the basic question which must be resolved at the level of the two governments—Russia and Ukraine—is that of customs duties and taxation. We have also been able to develop a mechanism for administration of such a free economic zone.

[Correspondent] The title of the document signed today is rather general—economics, science, technology and culture. However, our regions have some problems which are pressing, as for example migration. Was this discussed? And also a purely everyday level of the question: Will the most ordinary resident of Crimea or Kuban be able to cross the border of the states without any problems as a result of the cooperation of the two border regions?

[Franchuk] Of course, we talked about this. The situations with migration in Crimea and Kuban are very similar. This question was reviewed, and we recorded it in one of the articles of the agreement. We will resolve something together, consult with each other and help each other. Perhaps we will also work out a common program of migration for the two regions.

[Kharitonov] And as concerns the everyday level, we will do everything we can. However, there are many questions which must be resolved at the inter-state level. I am convinced that this must be done, since our peoples are bound together with close historical and kinship ties. This point was also written into our agreement.

[Correspondent] How soon will we feel the results of cooperation of the two border regions of the two states?

[Kharitonov] That will depend on the activity of the agreeing parties, the business circles of Kuban and Crimea. After all, we spoke not only about the principles of cooperation and about general questions. Specialists of the two regions held a specific discussion on the following matters: List of goods which may be sold to Kuban and Crimea; fishing; processing of products; exchange of technologies, transport communications and many other things. To say that we will live differently starting tomorrow would be premature. But the fact that this will be cannot be doubted.

[Correspondent] At one time, the Crimean Tatars actively left our kray for Crimea. Now the reverse process is being observed. With what is this associated?

[Franchuk] Evidently, the hopes of some to return to their native homes were not realized. We are offering land plots for construction and are giving material aid to those who are resettling. But evidently not everything is working out. Well, and then too, each person decides for himself where he will live and where it is better for him.

[Correspondent] Since you are working so well together, perhaps you will take up the resolution of the problems of the Black Sea Fleet?

[Franchuk] First of all, we really are working in a friendly manner. Secondly, the Black Sea Fleet is outside the sphere of our competency. We try not to get involved in politics. We have enough to do in our inter-regional relations without this.

[Kharitonov] But we are working on the problems of the Black Sea Fleet within the kray. We oversee the crews of ships, are friendly with them, and fulfill the orders of the federal government on deployment of units.

The heads of the regions also answered other questions posed by the journalists: On financing joint projects, on the organizational aspect of cooperation, and certain political aspects from the sphere of mutual relations of the two states were also touched upon. However, we probably cannot yet say that everything is all clear with the prospects of cooperation. We would like to believe that everything will be as it is planned, that such contacts between the leaders of the border regions of the two states will not become merely a political action, but will serve the good of the peoples populating Crimea and Kuban.

Need for Controls on Ukraine Border Emphasized

964E0406C Moscow GRANITSA ROSSII in Russian Dec 95 No 41, p 2

[Article by Mitrofan Matsayev: "Do We Need a Border With Ukraine?"]

[FBIS Translated Text] For centuries, Russia, Ukraine and Belorussia lived as a unified state. People got married without asking each other what nationality they were. They built houses and received apartments without stopping to think about the territory of which republic they were to live. Perhaps someday it will be that way again, but for now—the State Border of Russia and Ukraine runs along Bryansk, Kursk, Belgorod, Voronezh and Rostov Oblasts. We can understand the residents of the border villages and settlements when, in their close-knit circle, they curse both the border guards and the heads of state. After all, their brothers, sisters and parents have been left on "the other side." And although the only document one needs to visit the neighboring state is a passport, it is hard for the rural residents to force themselves to go to their Godfather's house not along the village road, but through the control checkpoint.

Really, do we need a border with Ukraine? After all, we have managed to come to agreement with Belorussia. We believe that many Russians pose the questions in just this way. In part, they are right. But only in part. Unfortunately, not everyone knows that the Russian leadership has repeatedly offered to the Ukrainian side that it review and then adopt a number of documents regulating the activity of the Russian-Ukrainian border. However, the Ukrainian leaders not only do not find the time to review our proposals, but on the contrary, state that the term "domestic and foreign boundary" does not suit them. They will guard the border of Ukraine in the same way along its entire extent.

Also, not all Russians know that recently the representatives of such nationalistic organizations as the Ukrainian National Assembly and the Ukrainian National Self Defense (UNA - UNSO) have stepped up their activity in Ukraine. Their leader is Yuriy Shukhevich, who served many years as a political prisoner (altogether he served 37 years of prison time and 4 years of exile). In 1991 he presented his candidacy for President of Ukraine, but did not get the necessary 100,000 signatures. His father, Roman Shukhevich, an associate of Stepan Bandera, was a general in the Ukrainian rebel army, and died in battle against the Soviet forces.

Shukhevich's assistant, Dmitriy Korchinskiy, recently announced: "I am a real patriot. A great country must be strong. Only the strong are given consideration. If Ukraine is really to be such a country, and Kiev—a great capital of Slavic culture, then Russia will disappear as the empire of evil."

But, in my opinion, Oleg Vitovich stated it most directly 4 years ago. The then-deputy of the Lvov Oblast Council presented a speech in the central square of the city, which thousands of Lvov residents still remember: "We are today no longer satisfied with the slogan, 'Ukrainian independent power.' We dream of a super power. We dream of the supremacy of the Ukrainian nation. We dream of such a power which will itself be able to dictate conditions to the whole world... We understand that this will be a struggle to the death: Either the Moskals will defeat us, or we will defeat them..."

The fact that UNA-UNSO is gradually gaining strength is indicated also by the following fact: Recently the activists of these organizations held a torchlight march in Kiev.

Having read such announcements of Ukrainian nationalists, whose number in parliament is ever increasing, perhaps we should think about whether we should really hasten to make a transparent border with Ukraine? Especially since even today Ukraine does not guard it with military subdivisions. Only at certain border control check-points is verification of documents of persons arriving from the far abroad performed, unlawful migration suppressed and persons who are prohibited from entering Russia identified.

The work performed is huge. Thus, for September alone the border guards of the Western Group of Border Troops passed over 3 million people through the Russian-Ukrainian border, including around 1.5 million foreigners, over 400,000 transport vehicles, including over 200,000 foreign ones.

Five border violators were detained, 11 firearms, over 21 kg of narcotic substances, and contraband in the sum of over 60 million rubles (R) was confiscated.

If we speak more specifically, then, for example, Bryansk Oblast borders Ukraine for an extent of over 350 km. Along this section of the border there is one control check-point and 7 border control offices. According to the chief of the "Bryansk" border control check-point, V. Orlov, his subordinates detain 5-6 citizens every day with forged or improperly formulated documents. This despite the fact that there are 60 other roads crossing the border on the controlled territory. In order to control traffic along them, border operations utilizing the reserve frontier posts are periodically conducted. Thus, in the course of a recent operation the border guards detained contraband in the sum of R350 million, 3 firearms and 14 kg of narcotics.

Do we need a border with Ukraine? We believe that today we do. And it is in the interests of the citizens of the border regions and managers of all levels to help the border guards whenever possible in fulfillment of their official responsibilities. As this is done in that very same Bryansk Oblast. Here, 20 apartments for officers and warrant officers were built with the share participation of the border guards. And the oblast governor, V. Baranov, despite the fact that he had only been in office for 3 weeks, presented the personnel of the reserve post with an imported color television set and video recorder.

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*Border Control, Cooperation with Russia Discussed

Press Chief on Border Operations

964E0353A Kiev NARODNA ARMIYA in Ukrainian 13 Dec 95 p 3

[Article by Lieutenant-Colonel Anatoliy Samarchenko, chief of the press service of the Border Troops of Ukraine: "What Kind of Border With Russia Do We Need?"]

[FBIS Translated Text] It was with great interest that my colleagues and I, who serve as Ukrainian border guards, read the article published in issue No. 41 of the newspaper *Granitsa Rossii* by Mitrofan Matsayev from Voronezh, entitled "Do We Need a Border with Ukraine?," which examines topical issues with respect to the Russian-Ukrainian state border. Despite the fact that certain accents in the article have been placed in such a way as to turn everything topsy-turvy, I will not attempt to show where the author is right and where he is wrong.

My duties have provided me with ample familiarity with the situation that now exists on the state border between Ukraine and the Russian Federation. Judging by the press, this topic is of interest to both citizens and border guards on both sides of the border. That is why we need to discuss it in greater detail.

I do not know about anyone else, but for my part, even posing the question whether a border between two sovereign states should be legally formalized seems to run counter to elementary logic. It is possible that someone may know of two countries in the world, which do not know where the border between them lies, but I have never heard of such countries. Never mind about states. Even dacha plots are clearly marked to indicate which territory belongs to whom. And no one is shocked by this, and it does not prevent anyone from living in peace and harmony — as is expected of good neighbors.

From this standpoint, there is nothing strange about the fact that, having proclaimed independence, Ukraine, guided by the principle of the inviolability of her borders and the absence of any territorial claims towards her neighbors, defined as one of her top-priority tasks to be the legal formalization of the state border with neighboring states. By now, a complete package of interstate treaties has been signed with Poland, Slovakia, and Hungary. Work to delimit the frontier with Moldova has begun, and is nearing completion with Belarus.

With respect to the Russian Federation, things are not as simple as imagined by the author of the article "Do We Need a Border with Ukraine?," who accuses the

Ukrainian side of deliberately procrastinating in arriving at a settlement of border issues.

Let me begin by stating that border controls on the frontier with Russia have been organized in accordance with the directive of the president of Ukraine in January 1993. For this purpose, border control units were formed in Mariupol, Luhansk, Kharkiv, Sumy, and Chernihiv under the general supervision of the Southeastern Command of the Border Troops in Kharkiv. The Ukrainian-Russian border is 2,484 kilometers long. Today, there are 60 checkpoints on this border, of which 15 are railroad crossings, 44 — for motor vehicles, and one ferry crossing. After the necessary outfitting is completed, it is planned to open nine more checkpoints (seven motor vehicle and two railroad crossings).

As we know, the system used to protect the border in any country depends on the situation that exists at any given time. In this sense, the situation on the Ukrainian-Russian border over the last two to three years cannot, unfortunately, be called stable. This stems not only from a catastrophic increase in illegal migration, but also an unprecedented rise in activity by criminal groups, in particular drug dealers, arms dealers, and others. Thus, between January 1993 and today, Ukrainian border guards on the Russian section of the border seized more than 10,000 units of various weapons and more than 2 million pieces of ammunition in attempts to bring these articles into or out of the country. These account for 96 percent of the total amount of items seized on the entire stretch of the Ukrainian state border. During this period, the Russian portion of the border was crossed legally by 108.7 million persons, which constitutes 45.5 percent of the total number of citizens who crossed the Ukrainian border, and by 10.87 million units of transport means. In this stream, nearly 13,000 persons were found to be trying to enter Ukraine illegally, of whom 99.5 percent were foreigners — that is, citizens of countries that are not members of the CIS.

It should be noted that in recent years the most acute problem facing Ukrainian border guards is the fight against illegal migrants, the bulk of whom now stream across the Russian portion of the border. Numerically, the largest group among these illegal crossers is made up of natives of the countries of Southeast Asia (4,516 persons have been arrested), the Middle and Near East (4,190 persons), Africa (1,768 persons), and European countries that are the source of illegal migrants (2,231 persons). They all regard the territory of Ukraine and Russia as one of the shortest and at the same time relatively safe transit routes from their countries to Western Europe.

There is probably no need to describe the danger posed by illegal migration for our peoples. Throngs of foreigners, who wander around our ountry unchecked, intensify the already tense criminogenic situation and serve as a source of constant threat of spreading infectious diseases. We should add to this the active use by international criminal clans of well-organized illegal migration channels.

Ukrainian border guards also seize the bulk of smuggled goods on the Russian border. In particular, in the first ten months of this year, they stopped the illegal export or import of goods valued at 246.95 billion Ukrainian karbovantsi on this stretch of the frontier. In addition, they confiscated 43,322 U.S. dollars and 137,040,000 Russian rubles. Among the goods seized were 156 metric tons of sugar, 34,000 liters of oil, more than 35 metric tons of salt, 56,000 liters of wine and vodka products, 155 metric tons of agricultural products, 198 metric tons of coal, 9.5 metric tons of nonferrous metals, 26 antique items, and much more.

All these numbers will undoubtedly force the ordinary citizen, who feels the effects of the difficult economic situation more than anyone else, to give further serious thought to the usefulness of border and customs controls on the Ukrainian-Russian border.

And what about the Russians, to what extent do they need reliable border and customs controls on their border with Ukraine?

Let us once again turn to numbers and facts. For example, compared with 1993 and 1994 when border guards seized 1,620 and 1,948 kilograms, respectively, of narcotic raw materials in attempts to import them from Ukraine into Russia, in the first ten months of this year, they seized more than 800 kg of these substances. The rather marked decline in the riminal activities of drug dealers is explained primarily by the fact that , as the saying goes, they have felt on their own skins [i.e., personally experienced] the sharply increased effectiveness of border and customs controls on the formerly "transparent" border between Ukraine and Russia. Nearly 90 percent of all attempts to transport drugs were by rail, using the structural features of railroad cars. The greatest number of seizures were made on the Kishinev—Moscow, Kiev—Adler, Lviv—Adler, and other routes.

Now let us add to the indicators reflecting the work of Ukrainian border guards the results of the official duties carried out by their Russian colleagues. The article "Do We Need a Border With Ukraine?" cites the following examples. In September, the border guards in the Western Group of the the Border Forces of the Russian Federation alone caught five illegal border crossers and seized 11 units of weapons and more than 21 kg of narcotic substances. They seized contraband valued at more than 60 million rubles. According to the chief of the Bryansk OKPP, his subordinates detain daily five to six citizens with forged or incorrectly issued documents. In just one recent operation, the border guards seized contraband goods worth 350 million rubles, three units of weapons, 14 kg of drugs.

In a word, both the Ukrainian and the Russian border guards earn their bread, as the saying goes. It is thanks to them that after literally only about two years, the majority of residents of both Ukraine and Russia do not question the need for border and customs controls on their common frontier. Incidentally, the author of the above article also has no doubt about this need. He states: "I believe that today [controls] are necessary. And it is in the interests of the citizens of border regions for leaders at all levels to do what they can to help the border guards carry out their official duties."

I would add to this that in the interests of both states, it is necessary to ensure proper state order on the common border. The border departments of our countries have recently done a great deal to achieve this goal. The commanders of the Border Forces of Ukraine and the Russian Federation initiated cooperation in November 1993 in Kiev, continued this effort during working meetings in Odessa, Yalta, and Chernihiv. The meetings resulted in a treaty between Ukraine and the Russian Federation on cooperation and reciprocity on border issues and in protocols that elaborate on the provisions of this treaty in specific fields, such as: on creating a joint working group made up of representatives of he Border Troops of Ukraine and the Russian Federation; on the procedure to be followed by the representatives of the Border Forces of the two countries; on joint control over the Sea of Azov and the Strait of Kerch; on the procedure for exchanging information on the situation on the common state border. In February 1995 in Kiev, the governments of Ukraine and the Russian Federation signed a treaty on checkpoints along the common border between the two countries.

As we can see, quite a lot has been accomplished as a start. Obviously, however, more could have been achieved if the dialogue concerning the legal formalization of the state border between our countries were more constructive. I do not know the source of information used by Mitrofan Matsayev in writing his article "Do We Need a Border With Ukraine?," especially when he states: "Unfortunately, not everyone knows that the Russian leadership has proposed on more than one occasion to the Ukrainian side to consider and then adopt a number of documents that would regulate the operation of the Russian-Ukrainian border. However, not only do the Ukrainian leaders fail to find the time to review our proposals, but, on the contrary, they say that the term 'internal and external border' does not meet with their approval. They will defend the border of Ukraine in the same manner along its entire length."

The fact is that there have been no proposals from Russia whatsoever regarding talks on the legal formalization of the common border during the four years of the modern history of our states. Meanwhile, from the moment that she proclaimed her independence, Ukraine has been constantly initiating such talks. For example, all four meetings of the officials in charge of the border departments of our countries were held on the territory of Ukraine and, as a rule, on the initiative of the Ukrainian border guards. No invitations to hold talks in Russia have ever been received.

In 1992, the Ministry of Foreign Affairs of Ukraine sent notes on three separate occasions to the Ministry of Foreign Affairs of the Russian Federation containing a draft of a treaty on the delimitation of the Ukrainian-Russian border, as well as concrete proposals to begin formalizing the border in legal terms. The Russian side avoided responding to these documents.

At the beginning of 1993, the Ministry of Foreign Affairs of Ukraine once again proposed in a note to the Ministry of Foreign Affairs of the Russian Federation to begin talks on the delimitation and demarcation of the Ukrainian-Russian border in order to formalize it by treaty and law. Thus far, no answer has been received.

After passage in the Russian Federation of the law on the state border, which offered good prospects for conducting talks, on 31 May 1993, the Ministry of Foreign Affairs of Ukraine sent another note to the Ministry of Foreign Affairs of the Russian Federation proposing to begin delimiting the common border. There has been no response to this note as well.

In working out the treaty between our countries on cooperation and reciprocity on border issues, the Ukrainian side constantly proposed to consider the issue of making a beginning on the legal formalization of the common state border. This proposal was rejected by Russian experts on the grounds that it supposedly did not fall into the treaty's legal sphere.

It seemed that the Memorandum On Cooperation in the Defense of the State Borders of the Republic of Belarus, the Russian Federation, and Ukraine, which was signed by the heads of the three states in Moscow on 15 April 1994, offered good prospects for the legal formalization of borders. The joint statement issued on this occasion confirmed the readiness of the three countries to continue work on formalizing their common state border by treaty and law. But only Ukraine and Belarus bore out this readiness with practical actions by creating a joint delimitation-demarcation commission.

Taking into consideration that the process of formalizing the Russian portion of the border by treaty and legislation is being postponed, in March 1995, the State Committee for the Defense of the State Border of Ukraine submitted a proposal to the Cabinet of Ministers to create a government delegation to conduct talks on the delimitation and demarcation of the Ukrainian-Russian border, as well as send a draft of the treaty on the legal formalization of the common state border to the Ministry of Foreign Affairs of the Russian Federation through diplomatic channels. In the event that no response is received to these documents as well, the State Committee on the Defense of the State Border of Ukraine proposed considering the possibility of carrying out the delimitation of the Ukrainian-Russian state border unilaterally, as Russia did with the border with Estonia, for example.

In May of this year, carrying out the directive of the Cabinet of Ministers, the Ministry of Foreign Affairs of Ukraine sent a note to the Ministry of Foreign Affairs of the Russian Federation containing a draft treaty on the legal formalization of the state border and a list of members of the Ukrainian delegation. It proposed holding talks in June in Kiev. Thus far there has been no answer from Russia.

Nor has there been a response to the draft of the interstate treaty on the admission-surrender of persons across the Ukrainian-Russian state border, which was sent to the Russian side in August of this year.

It should be added to what has been said above that currently the State Committee for the Defense of the State Border of Ukraine has prepared for discussion at talks drafts of agreements between Ukraine and the Russian Federation on the legal status of the Sea of Azov and shipping in its waters; on the legal status of the Strait of Kerch; on the delimitation of the continental shelf and the exclusive (maritime) economic zone in the Black Sea.

Naturally, the Ukrainian side is well aware that Russia has more than enough border problems with neighboring countries. These include Central Asia, the Caucasus, and the Baltic countries... But whatever the case may be, our common border stretches nearly two and a half thousand kilometers. True, compared to other regions of the former Union, the situation on this border is relatively calm and peaceful. However, this should not serve as an excuse for pushing the issues of its legal formalization into the background. Thus we hope that Ukraine's initiatives will find the necessary understanding on the part of Russia and that soon the state border between our countries will be duly legally formalized.

What kind of border do we need with Russia? One could talk about this at great length. But, put laconically, from the standpoint of legal formalization — a clearly defined border both on the map and on the ground. From the standpoint of regime — a border that is one hundred percent open for people with a clear conscience regardless of their citizenship, and, conversely, the same one hundred percent closed to those who try to exploit it for their criminal purposes...

Border Policy — Good Neighbor Policy

964E0353B Kiev NARODNA ARMIYA in Ukrainian 14 Dec 95 p 1

[Unattributed article: "Border Policy as a Development of a Good Neighbor Policy"]

[FBIS Translated Text] A regular meeting of the coordinating council on matters pertaining to building up the state border of Ukraine was held under the chairmanship of Vasyl Durdynets, deputy prime minister of Ukraine in charge of state security and emergency situations. Those attending the meeting discussed the reports of Pavlo Shysholin, first deputy chairman of the State Committee for the Defense of the State Border of Ukraine, and Leonid Derkach, head of the State Customs Committee. It was pointed out that the goal of our border policy should be developing a good neighbor policy and cooperation with countries with whom we share a common border. It is necessary to speed up outfitting border checkpoints, pursue a policy of improving the effectiveness of border and customs controls to simplify the procedure of crossing the border for law-abiding citizens, at the same time closing the border to criminal elements, illegal migrants, and illegal traffic in drugs and weapons.

Border Issues With Romania Examined

964F0717A Kiev NEZAVISIMOST in Russian 22 Dec 95 pp 1, 8-9

[Article by NEZAVISIMOST military commentator Gennadiy Korzh under the rubric "Viewpoint": "Zmeinyy Island in the General Context of Ukrainian-Romanian Relations"]

[FBIS Translated Text] The name of this Black Sea island has lately begun to be mentioned with increasing frequency in news dispatches. Zmeinyy [Snake] Island, where snakes have long been extinct, became a sudden obstacle in the work on the Political Treaty between Romania and Ukraine. It probably would be wrong to reduce the whole problem to Zmeinyy's status. Especially considering that Romanian Minister of Foreign Affairs T. Melescanu, too, said the following—verbatim—when answering a question in the Romanian senate: "....this topic is one of the main obstacles on the path of completing the work on the Treaty." Which means that there are several such obstacles. Well, let us look at them one by one.

In the fall of this year, in the United States, I interviewed a prominent politician—Sherman Garnett, a senior researcher at the Carnegie World Peace Foundation. We talked mainly about Ukraine's geopolitical role in Europe in light of the problem of stability in the region. Coming to the subject of Romanian-Ukrainian relations, my interlocutor said literally the following:

"I think they cannot be called normal, because there is a built- in conflict there. If Ukraine gave a thought right now as to where an exacerbation of the situation is currently most likely, it would be Romania or, in the future, the Moldovan-Romanian version. I do not think that the Romanian Government is fully involved in this process, but analyze the article on the subject of territorial claims—Zmeinyy Island, Bessarabia, and Bukovina. I think one can detect the government's shadow involvement in this, and this is alarming.

"On the other hand, anxious to join NATO (or at least not be removed from the list of applicants), it is clearly bad timing for Romania to start battles over borders that allegedly ought to be changed.... Note how Moldova's position has changed. At first, there was a lot of speculation regarding its unification with Romania. Now, I think, very few people in Moldova take this idea seriously. Of course, this would be far from the best outcome. Which means that in Ukrainian diplomacy's national security concerns, serious attention should be paid to Romania. I am not trying to inflame anti-Romanian sentiments—it is just that I am convinced that borders in that part of the world should remain inviolable."

My conversation with Sherman Garnett took place at the beginning of October. But literally two months later, during a meeting of the Romanian parliament's senate, Minister of Foreign Affairs T. Melescanu, answering a question from an opposition member, liberal senator E. Tocach [name as transliterated], expressed doubts that "Zmeinyy Island is de jure and de facto part of Ukrainian territory" and mentioned the existence of some sort of "discussion" between Ukraine and Romania on the subject of its possession and legal status. He also emphasized that the Romanian side is willing to "take this dispute to international forums, including the International Court." And at a press conference in December at the Romanian MFA [Ministry of Foreign Affairs] S. Ducaru, adviser to the minister of foreign affairs, elaborating on T. Melescanu's statement, noted that "Romania will demand a new review of the 1948 protocol" which made Zmeinyy Island a component part of the USSR.

The Ukrainian MFA in a special statement qualified such statements as a continuation of the Romanian side's old course. In its notes, delivered earlier, the Romanian MFA unilaterally declared void the 1948 protocol on the clarification on the demarcation of the Soviet-Rumanian state border, as well as the 1961 treaty on the regime of the Soviet-Romanian state border. The Ukrainian side qualified these steps as an attempt to make territorial claims against Ukraine. The statement underlined that Ukraine has no territorial claims against any state, rejects any territorial demands against it, and wishes to maintain normal good-neighbor relations with Romania. However, the Romanian side's actions create an unfavorable background for the completion of bilateral negotiations on the subject of signing a Political Treaty between Ukraine and Romania.

Before this MFA statement came out, Ukrainian ambassador to Romania was summoned to Kiev—for consultations....

What are these territorial claims, and how and when did they arise? Although the Romanian Embassy in Ukraine maintains that there are no claims, I believe this is not exactly the case. It is a rather complicated story, but not to the extent of not lending itself to being sorted out. For starters, two quotes. On 29 November 1991 the following statement came from the Romanian Government: **"The desire to develop mutually beneficial Romanian-Ukrainian relations does not assume recognition of the inclusion into the new, independent Ukrainian state of the northern part of Bukovina, the Gerz region, the Khotin region, and the counties in the south of Bessarabia, which were annexed by force by the USSR and then included in the territory of Ukraine on the basis of the Ribbentrop- Molotov pact." And here is a remark by State Secretary of the Romanian MFA Marcel Dinu on the subject of Zmeinyy Island: "As early as 1991 Romania made known to the USSR leadership its belief that [the island] "was transferred to USSR possession as a result of the aforementioned protocol imposed on us."**

Thus, three locales have been identified which Romania considers subject to dispute: the northern part of Bukovina, southern Bessarabia, and Zmeinyy Island. In the Romanian side's opinion, the inclusion of the two former into Ukraine occurred on the basis of the

Ribbentrop-Molotov pact, and the latter—under pressure form USSR after World War II. Well, let us look into each in an orderly manner.

This story began a long time ago. In 1918, two huge empires disintegrated—the Russian and the Austro-Hungarian. At that point, Romania already existed as an independent state—to a large extent due to Russia's efforts. Taking advantage of the empires' disintegration, it annexed part of their territories. Unfortunately, the Ukrainian People's Republic [UNR] and West-Ukrainian People's Republic [ZUNR], to which southern Bessarabia and northern Bukovina should have been apportioned, could not withstand Romania's military expansion. There is no doubt that the UNR and the ZUNR were to inherit these Ukrainian-populated possessions of Russia and Austria- Hungary. However, Romania had trampled both the nation's right to self-determination and the new states' rights.

Interestingly, northern Bukovina's population declared in caucuses that it was joining the ZUNR. On 6 November 1918 a regional committee of the Ukrainian People's Council was formed there. It proclaimed its authority over the Ukrainian part of Bukovina. But on 11 November Romanian troops seized Chernovtsy. In doing this, Bucharest violated a treaty signed with Russia back in 1914. This was a Russian-Romanian treaty on Romania's friendly neutrality toward Russia during the war and the expansion of Romanian territory. In keeping with it, Russia undertook an obligation to block attempts to violate the territorial integrity of Romania and recognized its right to annex Romanian-populated regions of the Austro-Hungarian monarchy at the point it deemed convenient. The principle of majority population was to be observed, however. This principle was to serve as a basis for demarcation of Bukovina territories that would go, respectively, to Romania and Russia. That is, in keeping with this treaty, in the event of the Austro- Hungarian empire's breakup, Bukovina was to be divided between Romania and Russia—and by ethnic attribute by that.

But what about Bessarabia? Neither Ukraine nor Russia ever recognized the fact of its annexation. First, trilateral (Romania, Ukraine, Russia) negotiations were conducted on the subject; then, after 1922, the Soviet Union continued negotiations with Bucharest. A very characteristic detail: Until 1940 there was no state border between Romania and the USSR—only a temporary demarcation line.

One of the deepest misconceptions in Romanian public opinion is the perception that Bessarabia and northern Bukovina were "seized" by the USSR on the basis of the Ribbentrop-Molotov pact. In reality, it only said that Germany recognizes these territories as a sphere of interest of the Soviet Union. Therefore, it is wrong to say (and this is precisely what is now being said in Bucharest) that the Ribbentrop-Molotov pact served as a basis for the return of Bessarabia and Bukovina to the USSR. The real basis was the restoration of a historical right. This is eloquently supported by diplomatic correspondence of those times.

I. Soviet Government Note to the Romanian Government

dated 26 June 1940

"In 1918 Romania, taking advantage of Russia's military weakness, forcibly seized from the Soviet Union (Russia) part of its territory—Bessarabia—thus breaking the century-long unity of Bessarabia, populated mostly by Ukrainians, with the Ukrainian Soviet Republic.

"The Soviet Union never reconciled to the fact of the forcible seizure of Bessarabia, as the USSR Government openly stated on numerous occasions to the whole world.

"Now that the USSR's military weakness is a thing of the past, and the current international situation requires the fastest possible resolution of unresolved questions inherited from the past in order to finally lay a foundation for lasting peace between countries, the Soviet Union considers it necessary and timely to begin, in the interests of restoring fairness, working jointly with Romania on immediate resolution of the question of returning Bessarabia to the Soviet Union.

"The USSR Government believes that the question of Bessarabia's return is organically linked to the question of transferring to the Soviet Union the part of Bukovina whose population in its overwhelming majority is linked to Soviet Ukraine by a common history, as well as a common language and ethnic composition. Such an act would be even more fair considering that the transfer of the northern part of Bukovina to the Soviet Union would represent— albeit to a small extent—a means of restitution for the huge loss caused to the Soviet Union and the population of Bessarabia by the 22-year Romanian rule of Bessarabia.

"The USSR Government proposes to the Royal Government of Romania:

"1. To return Bessarabia to the Soviet Union.

"2. To transfer to the Soviet Union the northern part of Bukovina within the borders as per the attached map.

"The USSR Government expresses hope that the Royal Government of Romania will accept these USSR proposals, thus enabling a peaceful resolution of the protracted conflict between the USSR and Romania.

"The USSR Government expects the Royal Government of Romania to reply within 27 June of this year."

II. Romanian Government Note to the Soviet Government

dated 27 June 1940

"The USSR Government has addressed the Romanian Government with a note, which was delivered at 2200 on 26 June by His Excellency Mr. Molotov, chairman of the Council of People's Commissars and People's Commissar of Foreign Affairs, to Mr. Davidescu, Romanian ambassador in Moscow.

"Inspired by the same desire as the Soviet Government—to see all questions that could cause disagreement between the USSR and Romania peacefully resolved, the Royal Government states that it stands ready to immediately begin, in the most broad sense, a friendly discussion, with the consent of all concerned, of all the Soviet Government's proposals.

"Accordingly, the Royal Government is asking the Soviet Government to kindly indicate the place and the date it wishes to reserve for this purpose.

"As soon as the Romanian Government receives the Soviet Government's reply, it will appoint delegates, and hopes that negotiations with the Soviet Government's representatives will result in the creation of solid relations of goodwill accord and friendship between the USSR and Romania."

III. Soviet Government Note to Romanian Government

dated 27 June 1940

"The USSR Government considers the 27 June reply of the Royal Government of Romania vague, since the reply does not indicate directly that it accepts the Soviet Government's proposals regarding the immediate transfer of Bessarabia and the northern part of Bukovina to the Soviet Union. But since the Romanian ambassador in Moscow, Mr. Davidescu, explained that the aforementioned reply of the Royal Government of Romania means its consent to the Soviet Government's proposals, the USSR Government, on the basis of this clarification provided by Mr. Davidescu, proposes that:

"1. Within four days, beginning at 1400 on 28 June, Moscow time, Romanian troops completely withdraw from the territory of Bessarabia and the northern part of Bukovina.

"2. Soviet troops over the same period of time take possession of the territory of Bessarabia and the northern part of Bukovina.

"3. On 28 June, Soviet troops take possession of the population centers of Chernovitsy, Kishinev, Akkerman.

"4. The Royal Government of Romania shall assume responsibility for the preservation of and prevention of damage to railroads, the locomotive and railcar pool, bridges, warehouses, airfields, industrial enterprises, power stations, and telegraph.

"5. A commission be appointed made up of representatives of the Soviet Government and the Romanian Government, two from each side, to settle disputes arising from the evacuation of Romanian troops and organizations from Bessarabia and the northern part of Bukovina.

"The Soviet Government insists that the Royal Government of Romania reply on the proposals listed above no later than 1200 noon 28 June."

As you can see, the return of the territories proceeded quite peacefully, without a single shot, without casualties. In other words, there were no defensive battles or acts of aggression. Bucharest simply was asked to return what it had taken without permission.

From the standpoint of international law, the basis for the current territorial division between Ukraine and Romania was the Paris Treaty of 1947, which defined in general terms the border between Romania and its neighbors. Because when Germany began war against the USSR, Romania took the former's side. It was the Reich's biggest ally. Bucharest fielded 26 divisions on the German side. And, in keeping with the agreement between Antonescu and Hitler, was given a considerable part of Ukrainian territory.

That is why at the Paris Peace Conference Romania was treated as an aggressor state. And it was precisely the Paris Peace Treaty that established Romania's responsibility for the aggression. The treaty also set the border between Romania and the USSR, thereby reaffirming the fairness of the return of Bessarabia and Bukovina. Attached to it was a small-scale map with the border marked on it, although the text of the treaty itself did not contain a description of the border position.

Therefore, in 1948 the need arose to clarify and describe the border. A protocol on the subject was signed between Romania and the USSR. It says, among other things: **"In keeping with Article I of the Peace Treaty with Romania, which went into effect on 15 September 1947, the Government of the Union of Soviet Socialist Republics, on one hand, and the**

Government of the People's Republic of Romania, on the other, have agreed on the following:

"...Zmeinyy Island (Cherpilor), situated in the Black Sea to the east of the mouth of the Danube, becomes a component part of the USSR."

This protocol became a component part of the 1949 treaty and the 1961 treaty "On the Regime of the Soviet-Romanian State Border." Both were unconditionally ratified by the Romanian parliament. Let me note here that both treaties contained not only a map but also a description of the border demarcation line.

Despite all this, the 1948 protocol turned into a stumbling block. The Romanian side considers it void, since it allegedly.... was not ratified by the Romanian parliament and was imposed under pressure from Moscow. These arguments are rather questionable, however, because there are no facts supporting the contention that the island was annexed by force. Until 1991 Romania never raised the question of ownership of Zmeinyy Island. It emerged only on the disintegration of the USSR. Our neighbors apparently figured that they will now get concessions. But why should they?

If we look attentively at Minister of Foreign Affairs T. Melescanu's speech in the senate and the statement of his adviser Sorin Ducaru, it becomes clear that the main point for Romania in the Zmeinyy Island problem is not....Zmeinyy Island. Here is S. Ducaru's opinion: **"The point of discussions on the subject of Zmeinyy Island, which by itself is not of particular economic interest (being a conglomerate of granite and lime rock), are the demands (?) of the Ukrainian side, the legal successor to the former USSR, to continue to attach to the island the territorial sea (12 miles) and a considerable part of the continental shelf, that is, the subject of negotiations regarding their delimiting (description in the text of pertinent treaties.—authors' note), which are about to commence."**

These words were confirmed by Ionel Shcherban, press attache of the Romanian Embassy in Ukraine: "The Romanian officials' statements did not contain a single word that could be construed as a claim on the island. We are talking only about delimiting the offshore space, that is, the continental shelf."

The Romanian side's stake is clear. In the opinion of scientists, there are five geological regions, promising with respect to oil and gas, on the territory of the offshore space around Zmeinyy Island, disputed by Romania. Interestingly, the Romanians already produce offshore oil nearby. However, according to information I received in the Ukrainian Ministry of Geology, the well drilled at the island itself so far has not produced any results. Neither did offshore prospecting. Neither did the British, who did the drilling at the "Dolphin" bed, get any results.

The prospecting continues, though. Most likely, there is fuel in the sea bed near Zmeinyy. I think that now you understand the true purpose of the Romanian claims on part of the shelf around the island. I am curious, however, which one. Not too many people know that negotiations on this subject have been going on between the USSR and Romania since 1967. Naturally, for Moscow it was more important to keep Bucharest in the sphere of its political influence, even at the cost of giving up its continental shelf. Besides, with its huge reserves of Siberian oil, the Kremlin leaders could disregard the hypothetical reserves of fuel that were yet to be prospected at the bottom of the Black Sea. Zmeinyy itself, however, presumably was to be left to the USSR. But how to divide the shelf? In the process of relentless negotiations, the Romanians were offered three versions of the agreement. First 2,000 square meters out of 7,000, then 3,000, and finally, 4,000. Bucharest rejected all three versions, and the negotiations stalled.

It would be interesting to know which part of the offshore space Romania would like to "delimit" from Ukraine? Thank goodness, however, our territories are not for sale. And then: We have no reason to keep Romania in any sphere, but we do need fuel ourselves. Plus, it is dangerous to create a precedent of concessions in territorial matters: After all, Romania is not the only country with hidden or open territorial claims against Ukraine.

There exist numerous treaties and agreements that have defined the border between Romania and the USSR—and Ukraine as its successor, said Vladimir Vasilenko, Ukraine's extraordinary and plenipotentiary ambassador and head of the Ukrainian delegation at negotiations on the preparation of the Political Treaty between Ukraine and Romania. A professor and doctor of law, he energetically dots all "i's:" "Our position is that do not have any territorial dispute with Romania. Romania, since it questions the treaties and Ukraine's possession of some or other territories, by doing so makes a claim against us."

But why? "It is all the fault of journalists, who misinterpreted T. Melescanu's words," I was told at the Romanian Embassy in Kiev. "The Ukrainian press apparently did not fully understand various nuances in the minister's reply. Apparently, the same happened in the Romanian press." For instance, the Romanian side intends to turn to the International Court only when all other venues have been exhausted.

Otherwise, the embassy's press attache Ionel Shcherban told me, relations between our countries are developing normally, although there is a lot of room for improvement. We need to sign the Political Treaty as soon as possible. At the same time, Ukraine and Russia maintain excellent relations in the military area. "Since we are neighbors, we must find opportunities for mutually beneficial cooperation," the Romanian diplomat emphasized.

Sounds in the spirit of the Helsinki documents. But the inviolability of postwar borders in Europe also is one of the fundamental ideas of the Helsinki act. And if the Government of Romania truly does not have any territorial claims against Ukraine, as the Romanian diplomat says, how do we interpret the current events?

I do not doubt at all the sincerity of the Romanian Embassy's press attache. I share his thoughts regarding the need to expand the people's and information exchange (which also was proclaimed in Helsinki) between our countries. Ionel Shcherban told me that the press is at fault for distortion of the Romanian minister of foreign affairs' remarks. And this is true not only in the incident with T. Melescanu. Not long ago ROMANIA LIBERA newspaper published material by Dinu Vedea "Ostap Bender, Tanks, and the Romanian-Ukrainian Treaty." This is how it begins: **"The Kievan heirs of Molotov and Rakovskiy learned well the lessons of Moscow Bolshevik propaganda institutes. For them, any round of negotiations is an offensive military operation. The attack must be preceded by artillery preparation. In the event of failure, positions also should be prepared for retreat. In keeping with the demands of the Moscow school of military-diplomatic strategy and tactics, preparation of the attack and retreat in peace conditions is the job of the patriotic press."**

This is a stone into Kiev's garden, since Dinu Vedea's material is a response to Anton Kryukov's publication "Ukrainian-Romanian Relations May Run Into a Dead End" in a "thick" capital city newspaper. And judging by the tone of the Romanian author's remarks, the "patriotic press" also is behind organizing the response—an unfailingly crushing strike. Here is another quote by way of proof: **"The Kiev newspaper writes about the Ribbentrop-Molotov pact. Allegedly it was signed by others, not the Ukrainians, who allegedly did not inherit anything from those who signed this document in the Kremlin. Allegedly they only inherited tanks and airplanes—not those of 1940 issue that crossed the Dniester, but different ones, more modern, the likes of which the Romanians cannot even dream of. This is the way negotiations are conducted in Kiev—starting with the reasoning of the crook Ostap Bender and ending with T-64 tanks."**

Well, the tone of the opposition newspaper ROMANIA LIBERA, which, for instance, called the Ukrainian ambassador in Romania Aleksandr Chalyy a "Soviet gauleiter," does not surprise me—after all, Ukraine also has its extremist publications. What does surprise me is the opening delivered to the Bucharest journalist by his Kiev colleague. Having touched upon such a delicate question as Ukrainian-Romanian relations, he incorporated into the text the immortal image of Ostap Bender—to "liven it up." And did so completely out of context. Because if we look at things from the standpoint of a Romanian citizen, the "Turkish subject," loaded with contraband furs and gold, tried to illegally cross the border to Romania, and then attempted to bribe border guards. This is the part Dinu Vedea used in his material for groundless insults of Ambassador V. Vasilenko, head of Ukrainian delegation at the negotiations.

A copy of another amusing publication was given to me by Ionel Shcherban. It is R. Otkolenko's commentary "Will We Fight a War With Romania?" published in an Odessa newspaper. I can try, of course, to be understanding regarding the nonacceptance of everything Romanian by some Odessa residents, whose occupied city in 1941 was even called Antonescu for a while. But even this is no excuse for such militant titles. And even less so for incompetent conclusions. Here are some of them. "Romania believes that the island was not transferred to the USSR in 1940 (?) in keeping with the Ribbentrop- Molotov pact (?) but was 'given as a gift' by the communist leadership of Romania to the USSR in 1948." More: "Bucharest's sensational claims against the territory of Zmeinyy Island could cause a break in diplomatic relations between Romania and Ukraine (!), official representative of the Ukrainian leadership, who wished to remain anonymous (?), told me yesterday." And here is another "opinion:" "A military official said that the combat-worthiness of the current Romanian Army is zero."

It is good, of course, that the time when only capital city newspapers were authorized to write about big politics is past. Today this topic is open for regional publications, too. What is bad is that sometimes they tackle the issue with provincial incompetence, without proof, and simply stupidly.

Since we have come across the military aspect, let us talk about it in more detail. Any military specialist—Ukrainian or Romanian— will say that an armed conflict between our countries is impossible. And the point is not just the clearly mismatched military potential of the two countries: Ukraine possesses one of the most powerful militaries in Europe, while Romania's military equipment dates back to the 1940's (although the troops' fighting spirit is quite high). The world community simply cannot permit another armed conflict to flare up in Europe, and Bucharest is fully aware of this.

"Ukraine conducts a peace-loving foreign policy," Colonel Oleksandr Kluban, press secretary to the Ukrainian minister of defense, told me. "We fulfill all obligations we have undertaken, including in the military sphere. We have already fulfilled the agreement on reduction of conventional arms in Europe, and are complying unfailingly with nuclear arms treaties on flank limitations. By the way, our relations with the Romanian military establishment are developing in a friendly way. A year ago, our Ministries of Defense signed a cooperation treaty; we now exchange delegations. Our military participates in joint exercises within the framework of the Partnership for Peace program. However, as a rule, any territorial claims complicate relations. Besides, the territorial integrity of our country is guaranteed by a trilateral agreement on strategic offensive arms limitations between Ukraine, Russia, and the United States. But the main danger is that the policy of revising the existing borders that Romania is now beginning could serve as a catalyst for such a process throughout Europe. And this is very dangerous."

What will be the fate of the future Ukrainian-Romanian Political Treaty? Why have things ground to a halt there? This is what Ambassador Vladimir Vasilenko told me: **"In its interpretation of historical documents and facts, the Romanian side demonstrates a selective approach. It ignores the events before the Ribbentrop- Molotov pact and after it as if nothing had happened. Such are the tactics. Therefore Romania demands that wording that would denounce the consequences of the Ribbentrop-Molotov pact be included in the Political Treaty. And second. The Romanian side refuses to include in the text of the treaty a repudiation of territorial claims, even in the wording of the Helsinki Final Act, signed by both countries."**

The blueprint is clear. As we can see, the participants in the negotiations on the Romanian side intend to include in the text of the treaty wording that would enable it in the future to make claims against Ukraine. Add to that the five-year anti-Ukrainian campaign in the press. Observers note that it is well directed, and far from only opposition publications are participating in it. Lately, as we can see, official representatives too have begun to put forward substantiation of claims against Ukraine. Apparently, this is precisely why the signing of the treaty could be delayed until the results of elections are in. Until then, most likely work on the treaty will be limited to the level of consultations.... **"We are fully and completely for signing the treaty," says Vladimir Vasilenko. "With wording, however, that falls within commonly recognized principles. We are not asking for anything special, after all."**

Naturally, the Romanian side does not dare to openly announce its intentions. It prefers, for instance, to speak of excessive radicalism of the press.

At the foundation of these designs is, believe it or not, Romania's foreign policy doctrine, which says that one of its ultimate foreign policy goals is the restoration of "Greater Romania" within the historical and ethnic borders of the Romanian nation. Meaning, apparently, the 1918 borders. There even exists a party called "Greater Romania." Considerable encroachment on the rights of ethnic minorities, especially Ukrainian, and their subsequent Romanization also is present in this context (why are our authorities, and especially the parliament, silent about this? The article on guarantees for ethnic minorities must be included in no uncertain terms in the Political Treaty with Romania). And, of course, territorial claims against practically all its neighbors. It is not accidental that not only Bucharest's negotiations with Ukraine have run into a dead end, but also those with Russia, Hungary, and Moldova.

Apparently, a mistake was made in the doctrine itself. Because what will happen if we, in turn, begin to build Greater Ukraine, or the Germans, for instance—Greater Germany? What will happen in Europe then? For a long time (and wrongly) Ukraine was quite tolerant toward attacks against it coming from the ranks of the Romanian opposition and the press. Completely wrongly, in my opinion. First, this silence was perceived as a sign of consent. Second, a considerable part of Romanian society became convinced that Ukraine had seized others' territory illegally. And now they want to convince the rest of the world of this. Using to this end even the agreement on keeping the negotiations confidential, which they themselves routinely violate—to their own benefit.

In July of this year MFA State Secretary Marcel Dinu was invited to Kiev—to get work on the Political Treaty moving. All talk revolved around the Ribbentrop-Molotov pact, and nothing moved. Then Ukraine decided to make a substantial concession by agreeing to denounce the secret protocol to the pact. Along with that, it was agreed to put the following wording in the treaty's preamble: "The parties recognize the legitimacy of international law acts that established territorial demarcations in postwar Europe." They also formulated Article 2, in which the parties now and in the future gave up any territorial claims against each other. Mr. Dinu asked for a week—for consultations. But the Romanian side remained silent....10 times longer. Then they said: We agree, but with editorial changes. Having informed the Ukrainian ambassador of this on Friday, the Romanian MFA nevertheless promised to formally send the text only on Tuesday. With no choice left, we had to wait. And why wait? Because exactly at that time, Romanian President Ion Iliescu was on an official visit to Washington, and there was some concern that the Americans would learn of this. Considering that Romanian diplomats left nothing in the treaty's text of the wording agreed upon in Kiev.

The Ukrainian MFA suggested returning to the discussion in the form of additional consultations (instead of negotiations) on the preamble and part two. Immediately, reports appeared in the Romanian press that at the negotiations Bucharest will propose....to forgo territorial claims. The consultations ended with no results, which the local public took as Kiev's refusal to accept such wonderful Romanian proposals. And then in its statement to the press the Romanian MFA said that there had been progress and results in the negotiations conducted with Kiev.... Well, this tactic also is understandable: creation of the illusion of a negotiating process and serious disinformation of public opinion. Essentially, the Romanian Government became hostage to speculations around the territorial problems and the campaign that for five years aimed at the substantiation of territorial claims. The last blow in this campaign is aimed at discrediting Ambassadors A. Chalyy and V. Vasilenko—as people who adopted a position "inconvenient" for the Romanian diplomats at the negotiations. I hope very much that this blow will not achieve its goal.

Ukraine's final position, however, is this: It does not have a territorial dispute with Romania (although there are claims from the other side). The border has been set by legitimate international treaties, is marked on the terrain, and is securely guarded. At the same time, Ukraine supports signing the Political Treaty (naturally, with normal wording of "territorial" articles) and the development of bilateral relations with Romania.

National Affairs

Consideration of Tatar Demands Urged

96P50033A Kiev DEMOKRATYCHNA UKRAYINA in Ukrainian 7 Dec 95 pp 1, 3

[Article by Volodymyr Prytula, Head of the Crimean Independent Center for Political Research: "The Crimean Tatar Question and the Problem Of Its Understanding in Kiev and Simferopol"]

[FBIS Translated Text] The November events in Crimea have again illuminated the pressing nature of finding a solution to the so-called Crimean Tatar problem for the Ukrainian state. Is the Ukrainian leadership capable of making real steps in that direction, does official Simferopol understand the seriousness of the situation that has developed and finally will the Crimean Tatar leaders refrain from radical demands and radical methods of struggle for their realization? The political stability of Crimea and Ukraine as a whole depends on the answers to these questions.

Neither Kiev nor Simferopol seriously counted on managing to adopt a new variant of the Crimean constitution which would satisfy both the sepratists of various stripes, the Crimean Tatars and the central government of Ukraine. Truly, the constitutional "product" that was obtained as the result of the Crimean legislators' vote on 1 November does not satisfy any of them fully. However, if sepratist forces have lost almost all possibility for real influence on the situation, while the central authority, on the other hand, is capable upon the ratification of the Crimean constitution of making it a collection of empty declarations, then the Crimean Tatars have attempted to defend their rights and interests by means of parliamentary and extraparliamentary methods — deputy hunger strikes and acts of civil disobedience. Nonetheless, as local observers have noted, the refusal of the parliamentary majority to come to a real compromise with the Crimean Tatars — is the essential, but nevertheless the only reason for the radical worsening of the political situation in Crimea.

In demanding constitutional guarantees of effective representation in the Crimean organs of government, the Kurultay faction was asking for a lot: an amendment to Article 107 of the Constitution of the autonomous republic on the proportional election system to the local parliament would allow the Crimean Tatars to have 10-15% of the seats, but with the passiveness of the Russian-speaking population and the activeness of the Crimean Tatars — almost twice as many seats. Nonetheless, this was a serious concession on the part of the faction — for the Mejlis at first demanded a guaranteed quota of a third of the future Crimean Supreme Council or the creation of a bicameral parliament. As far as demands for the constitutional securing of the equality of the Crimean Tatar language with Russian and Ukrainian are concerned, according to members of the Kurultay faction, this is a question of the survival of the Crimean Tatar language, it can only be preserved here in Crimea.

However, the parliamentary majority, like never before a monolith united before "the Tatar threat," was influenced neither by the political hunger strike of 9 of their colleagues nor the Mejlis's warning concerning the possibility of acts of civil disobedience. In addition, several observers have expressed the thought that deputies from the former Russia Bloc, who constantly feel humiliated in connection with the necessity of working within the legal field of Ukraine, is simply playing on the Crimean Tatars — political allies of Kiev in disputes over the territorial allegiance of Crimea. Obviously for that very same reason the local parliament rejected all compromise variants of an amendment to the Constitution of the autonomous republic that had been proposed by experts of the OSCE and the Ukrainian Supreme Council and had been accepted by the Kurultay faction. Just for that very same reason the question of no confidence in deputy chairman of the Supreme Council Refat Chubarov was raised, the reason for which was his speech to a large unsanctioned Crimean. Tatar rally, after which the participants had dispersed to their homes. R. Chubarov himself called the 15 November session a "witch trial," and he was not far from the truth: at that time the atmosphere in the Crimean parliament was truly steeped in the spirit of xenophobia.

The former chairman of the Crimean Supreme Council Sergey Tsekov called the demands of the Crimean Tatars unreasonable: "I do not see in them any special logic, nor do I see any weighty arguments that would convince one about the changes they want to make: Nonetheless, the Supreme Council has made significant concessions." One of the leaders of the Russian national-patriots in Sevastopol, Deputy Aleksandr Kruglov was more blunt: "The Tatar demands, if one speaks in every day language, are simply impudent, and if one speaks in the language of politics — are extreme. We cannot and will not allow this."

Deputy Lila Budzhurova declared that through the fault of the majority in the Crimean Supreme Council the parliamentary crisis could grow into a political one, or a alliance of the pro-Russian factions could push the Crimean Tatars into acts of civil disobedience. But some observers say that there are other reasons for the worsening of the situation in Crimea. As the result of a marked worsening of the socio-economic state of the Crimean Tatar people as well as lack of a solution to a series of Crimean Tatar political problems (the most acute being the absence of a simplified procedure for deportees to obtain Ukrainian citizenship), the influence of the radical nationalist wing of the Crimean Tatar national movement is growing. More and more frequently the liberal, pro-Kiev minded activists (Refat Chubarov, Nadir Bekirov, Lenur Arfinov and others) are being left in the minority. It is just this threat of a takeover of the Mejlis by radicals, in the opinion of some observers, was the reason for the change of the regular all-national congress of the Kurultay at which the reelection of the Mejlis is planned. There is no doubt that at the Kurultay the question will come up of what use the 14 Crimean Tatars deputies were during there stay in parliament. Both the approval of the Crimean constitution without a guarantee of representation and equality of languages will be perceived by the Crimean Tatars as a serious defeat of the present Mejlis and the Kurultay parliamentary faction. This also caused the radicalization of the recent actions.

However, observers believe that is unlikely that threats to initiate acts of civil disobedience will be carried out. As Mejlis head Mustafa Dzhemilev said, the Mejlis is in full control of the situation among Crimean Tatars and will not begin these actions until the position of official Kiev becomes clear. The Crimean Tatar leader declared that he expects "only understanding of our position by the Ukraine side." He supported the position of Refat Chubarov spoken by him at a recent meeting with Ukrainian President Leonid Kuchma on the creation of a special presidential commission or council for the examination of the national problems of Crimea (including constitutional ones), which would include deputies of the Crimean Supreme Council, members of the Mejlis, representatives of the autonomous republic's Ukrainian organizations and representatives of the central authority. "This is the most sensible way to solve the problems," said M. Dzhemilev. R. Chubarov also appealed to President Kuchma with a proposal to strengthen the function of the center in solving interethnic problems of the region, since "the president of Ukraine ought to act as a guarantee for the adherence to mutually balanced measures for the solution of national problems." Obviously this may be interpreted as signals to Kiev of the willingness of Crimean Tatar leaders to compromise or even make concessions. However, for this it is necessary to help them preserve at least the appearance of success. For example, a possible presidential decree designating the Mejlis "the highest representative organ of the Crimean Tatar people," along with a directive to the Ministry of Justice to work out the judicial recognition of this status, would look like a big victory for the pro-Ukrainian wing of the Mejlis on the eve of the Kurultay and have no substantial negative effects for Kiev at all, and at the same time would increase the influence and authority of the Ukrainian authorities among the Crimean Tatar population in Crimea. I would add that de-facto recognition of the Mejlis by the Simferopol and Kiev authorities, as well as by international organizations (OSCE and UN missions and so forth) has already occurred. This is only one of the variants for getting out of the complicated situation that has come into being.

The most substantial argument against at least partial support of the Crimean Tatar demands by official Kiev, is the fear that their example could be followed by other national minorities in Ukraine as well. Then one half or so of the seats in the Ukrainian parliament would have to be given out under various quotas. However, one should remember that out of all the minorities in Ukraine, only the Crimean Tatars fall under the judicial designation of "a native people," as it is used in international practice, and this gives only them certain rights and even privileges that are designated in a series of international documents (in particular by Convention 169 of the International Labor Organization from 1989).

But in any case, both the Kiev central authorities and the administration of the autonomous republic must rid themselves of the "antitatar syndrome." After having wisely integrated the Crimean Tatar people into Ukrainian society, Ukraine will be able to safeguard itself in the future from a possible threat of any sort of sepratism in Crimea.

*Reasons For Low Birthrate Traced

96P50029A Kiev DEMOKRATYCHNA UKRAYINA in Ukrainian 9 Dec 95 p 1

[Article by Olena Kovanenko of the Ukrainian Independent Center For Political Research: "Children as a Luxury: Ukraine May Soon Be Transformed into a Country of Pensioners"]

[FBIS Translated Text] Today there are 10.7 million people between the ages of 16 and 29 in our country. Compared to 1970, the number of young people relative to the general population has declined by 1 percent. The rural population has aged the most — here the decline is much larger, 15.5 percent.

In general the demographic situation in rural areas is much worse than in urban ones: here 49.2 percent of the population that is ablebodied supports 26.8 percent of the population that is made up of pensioners, while in the cities the corresponding figures are 62.3 percent and 15.1 percent.

The unfavorable demographic situation can only be rectified by a state program to stimulate the birth rate and support young families, however due to the deep economic crisis and the chronic budget deficit, even if this program were adopted by the Supreme Council or the government, it would hardly achieve any real results.

According to data from the Ministry For Youth and Sport, more that 43 percent of families cannot have or do not want children. There are various reasons for this, but the major one is that under the present economic conditions, children have become a "luxury." People who can barely make ends mean simply cannot afford a child. Thus, there is nothing strange about the fact that last year the number of births per thousand people was 9.3 in cities and 11.6 in rural areas. This is the lowest index in the entire postwar period in Ukraine. This is closely connected with the fact that starting with the second half of 1992 (it was then that the sharp fall in production began) more that 90 percent of families have a living standard lower that the minimum consumer budget. However, there are young families that have found their place in the stormy sea of our half capitalism and have enough money so that they do not have to deny themselves anything. According to the same Ministry of Youth data, these make up only 2 percent of young families.

It is comforting that the great majority of young families nonetheless rely on themselves and do not expect help from the state or other structures. According to a poll conducted by the Investigative Institute on the Problems of Youth, 66.2 percent of husbands and wives polled see the solution to their straited circumstances as earning more money themselves. However a cautious attitude is still quite widespread. Thus, 18.8 percent of husbands and 36.5 percent of wives look to their parents for help, while 16.8 percent of those questioned see emigration as the solution to their condition.

Today only one third of young families have their own apartments, 11.8 percent live in communal apartments, 14.2 percent rent and 9.6 percent live in dormitories. Almost half of young families live with their parents. Such an unsettled state is one of the reasons for postponing having children, family conflicts and divorce. Judging from the low tempo of construction, as well as the high cost of housing, in the near future this problem will hardly be solved. To a certain extent targeted subsidized credits could help, but then again everything depends on the deficit-ridden state budget.

Only the quickest possible reform of the economy and the emergence of the country from its crisis can change the demographic situation for the better. Otherwise in a few decades the major portion of the population will be made up of pensioners.

Korchynskyy on UNA-UNSO Ideology

964F0716A Moscow NEZAVISIMAYA GAZETA in Russian 21 Dec 95 p 5

[Interview with Dmitriy Korchynskyy, chief ideologist of the UNA- UNSO movement, by Dmitriy Sergeyev;

place and date not given: "'Jefferson Would Be a Member of the UNA-UNSO'"]

[FBIS Translated Text]

[Sergeyev] In today's Russia people who are politically committed, not to mention those who are far removed from politics, consider the UNA-UNSO [Ukrainian National Assembly- Ukrainian People's Defense Force] the most outrageous extremist organization, a military formation of a right-wing-extremist type, some hopeless marginals.... Certain analogous tiny parties in Russia are given by way of example. But today the UNA is represented in the Ukrainian Parliament and the municipal authorities, is not by definition marginal, that is. And, in addition, in your program statements you call yourselves a center party....

[Korchynskyy] The UNA-UNSO is, truly, a center organization, I would even say that it is a certain environment, a community. The UNA political organization and the UNSO paramilitary formation are on free sail in this environment. Naturally, the methods of the activity and the mode of existence of this environment are not confined merely to politics.... They are far wider: a particular cultural environment, a particular tradition, a particular behavioral stereotype, which differs from the prevailing type.

Nonetheless, the UNA political party is a party that cleaves to typically centrist positions. Were Thomas Jefferson alive in Ukraine today, he would be a member of the Ukrainian National Assembly. The sole thing that differentiates us from all the others is a tendency toward action. Whereas the methods of the activity of any party are a congress, a conference, a meeting, and, in the most extreme case, participation in elections, political action for us is the strike and direct action in the social protection of the working people (or in social protection against the working people). This is always a particular action. It is for this reason that the sense of some extremism arises. The situation in Ukraine is such that it is essential to act—in the sense that radical democracy acted in the 18th and 19th centuries in America and West Europe.

[Sergeyev] How radical has been the change in the situation surrounding the UNA-UNSO following the events of July, when many of those who rejected you in principle as a phenomenon are today disposed toward if not support, then, at least, toward moral defense?

[Korchynskyy] Certain changes occurred after 18 July because the national democrats understood that it was we who would defend them against the Special Police Detachment. But this did not last long, and the common dislike for us of the national democrats and the communists revived with new force because both saw that we were supplanting them. We are intercepting their electorate, we are more active than they are.

....You can be reconciled with an enemy, but under no circumstances can you be reconciled with a competitor. We are squeezing the national democrats from their political niche, we are squeezing out the communists at the same time also. Whereas the whole summer there was talk about the coming fall offensive of the left, of the "red autumn," the result was not a "red" but a "black and red" autumn. The fall offensive of the UNA-UNSO was the result. The entire fall was dominated by our political activity, and we did not give either the communists or the national democrats a chance to breathe easy. No one likes this, and for this reason practically all parties in today's Ukraine are counterposed to us.

[Sergeyev] What are the UNA-UNSO's relations with avowedly right- wing-extremist radical parties like?

[Korchynskyy] They are extremely bad. The right is uniting with the left against the people. The right is uniting with the left against the UNA-UNSO.

On the whole, though, the functions of the political parties are now being assumed by the General Procuracy, the Office for Combating Organized Crime (UBOP), the presidential structures, the Ministry of Justice, and other state institutions. They are behaving like independent political forces, pursuing their own political line, and acting in the spirit of political parties.

[Sergeyev] On whom, in your opinion, does such an authoritarian regime rely?

[Korchynskyy] The regime expresses only its own interests. Society is not structured, there is practically no bourgeoisie in Ukraine, and the bourgeoisie that does exist is crushed by taxes and an abnormal mode of existence. The state bourgeoisie—government officials and business managers—holds the capital and is now undertaking mass privatization in its own interests and engaging only in the export of capital and privatization.

[Sergeyev] It would have been logical for a broad antigovernment coalition to have emerged in July, but this did not happen. May it be assumed that the UNSO's extreme style has left no opportunity for any coalitions with the national democrats?

[Korchynskyy] There was no association of any political forces after these events. What happened was something else. For the first few days the regime cowered in horror, it was expecting mass protest actions throughout Ukraine. It was expecting that certain political forces would unite and that a headquarters of the revolution in the style of Solidarity in Poland would emerge. The regime's fear was truly palpable, and messengers from the Cabinet of Ministers and from the president were dispatched to shift the responsibility onto one another. But no association occurred.

All that of which the national democratic forces in Ukraine proved capable was a boring protest meeting and a long service for the dead. There was not a single call on their part, other than one for people to keep calm and not succumb to provocations.

The UNA-UNSO may be regarded as a marginal extremist group, but it is the sole political force operating from below. All the other forces have state origins: the Special Police Detachment, the UBOP, the procuracy, the Ministry of Justice, the president. And we are opposed to them. None of the other parties are opposed because they do not operate in the genre of practical politics.

[Sergeyev] In form, at least, all that happened in July was an action of the Ukrainian National Church, not of political parties. This signifies its real strength, political primarily. Young people, who in Russia are quite indifferent to ecclesiastical problems—they do not go against police cordons, in any event—took an active part in the clashes, what is more.

How does Ukraine differ from Russia here?

[Korchynskyy] There is a huge difference. The level of religiosity in Ukraine has always been higher than in Russia (I shall not at this time say whether this is a good thing or a bad thing), and questions of faith here have always been more urgent. We in Ukraine have recently had a religious war, essentially, and this has led to whole battles, the seizure of places of worship, and murders.

This is on the one hand bad, but, on the other, it shows that matters of faith are exceptionally urgent here. And whereas throughout the world you can be a Christian twice a year—at Christmas and Easter—such a thing is impossible for many people. Faith is relevant, it is felt constantly. The difference is evident even at the level of the personalities of the patriarchs. Ridiger, who was and remains a government official, is one thing. Patriarch Vladimir, who served 19 years for his beliefs and was a participant in the armed underground movement of the 1940's, a man who lived his whole life in exceptional poverty and whom we, for example, considered a member of our organization, is another.

[Sergeyev] What is the explanation for so high a religiosity (compared with the Russians) of the Ukrainians? Can it be said that Ukrainians are more irrational?

[Korchynskyy] The fact, evidently, that Ukraine represents some border area, has done for quite some time, what is more. After all, there have virtually never been religious wars in Russia. Here, on the other hand, they have been fought for approximately 400 years. The attitude toward the church is a tradition and a certain genetic memory.

Ukrainians are a young nation. We differ from the Europeans in the fact that our Thermopylae, our Parthenon, our Napoleonic campaigns are not behind but ahead of us. Here, as distinct from West Europe, spiritual problems are the basis of existence.

There is no direct analogy to the European Middle Ages here. It is not exactly that. Because the situation today is different, it is a different world, and something similar, but new, is being experienced here. Something new is being formed on this territory. There is a presentiment of all this. These new things are making their presence felt in jolts—religious conflicts, irrational actions and experiences, strong feelings....

Many of the participants in religious clashes do not know the Creed. But this is a manifestation of some burgeoning assertiveness....

[Sergeyev] Does it not seem to you, as a political strategist, that a very awkward situation, whereby the UNA-UNSO appears with the Ukrainian National Church in an associative copula, has arisen? This could enhance its authority among believers, but at the same time it is narrowing the space for political maneuver. Many people now consider the UNA-UNSO simply an operational subunit of the church....

[Korchynskyy] The point is that the UNA-UNSO is far better known than the Kievan Patriarchate. This will, therefore, most likely be one further facet in our image, but under no circumstances will it signify in the public mind our subordinate position.

[Sergeyev] In Russia you are, nonetheless, known as a radical or moderate nationalist party, not as a cultural phenomenon. Your original and paradoxical studies connected with Zen Buddhism, for example, are unknown....

[Korchynskyy] To tell you the truth, our political programs are prints, verse, and music. Some ideological texts perform a secondary role. It is very gratifying to me that quite intensive cultural work is being performed in our organization and that our people are interested in a new cultural style. This is for us not even a matter of interest—it is of vital importance. Questions of style are vitally important for us, we live by this, and rhymed proclamations are at the same time even the most refined verse for us. Any manifestation of art is perceived as keenly topical and keenly political.

The UNA-UNSO is a community which aspires to realize itself in all spheres of the spirit. To mold a new nation, that is. All nations are ultimately shaped by organizations. The Russian nation was formed by an organization going by the name of the "Moscow Principality"—three farmsteads enclosed by a palisade. A certain number of people, having adopted a certain style, formulated or borrowed a certain idea and began to impose it on everyone else. The Russian nation could have been formed not around Moscow but around Ryazan or Greater Novgorod. And this would have been a different nation with a somewhat different identity, with different fortunes, and with different behavioral stereotypes.

The French nation was formed around the Parisian royal court, although it could have taken shape around the Duchy of Burgundy or Provence generally. This would have been something different.

There are communities that are predominant, conquering in this competition for the molding of the national identity, for the molding of a new culture. And it is natural that the nation that takes shape around the UNA-UNSO will differ from that which could take shape around the People's Rukh of Ukraine.

[Sergeyev] Today the center of activity is shifting to the East— less petit bourgeois than the West and more impassioned, although at the same time less civilized. And more ethnically complex....

[Korchynskyy] This is just what we want.

[Sergeyev] You will mold this style in conflict, and it will be connected more with the East than with the West?

[Korchynskyy] Yes. The typical inhabitant of the Upper Dnieper region is not in principle in the least bit different from the typical inhabitant of the Volga area. They all wear Chinese pants, listen to Black music, and watch American movies. These are the people for whose hearts we are competing with all the rest. There was Greek civilization, but ultimately it was the Roman Empire that was formed. It seems to me that the future empire will, for all that, be Ukrainian-speaking.

[Sergeyev] What might the connection here be?

[Korchynskyy] The fact that it is in Ukraine that the UNA-UNSO, of which there are no counterparts either in the CIS or in other countries, arose.

[Sergeyev] The UNA-UNSO is the sole youth party in Ukraine with links with the musical underground—this is a very considerable difference from the Russian parties....

[Korchynskyy] The organization consists of young people, in the main, as distinct from the other parties, which consist of people who have things to remember. This, in fact, is what they are doing the whole time....

[Sergeyev] The UNA-UNSO is an underground phenomenon?

[Korchynskyy] Yes. The UNA is not the opposition, the UNA is the underground. And, as a phenomenon, it is closely interwoven with other phenomena of the underground—in music, in the theater, in poetry. A multitude of well-known Ukrainian rock groups take part in our election campaign—and do so free of charge. The organization differs from all the rest in that you may either love it or hate it. It is impossible to be bored by it.

Generally speaking, we, as people who are constantly handling TNT, may state that culture has greater revolutionary potential than TNT.

[Sergeyev] What is your view of the decree according to which certain soft drugs are legalized in Ukraine?

[Korchynskyy] We take a positive view of it. We were a sponsor and propagandist of this legalization and believe that all other narcotics should be legalized also.

Horbulin on Workings of Administration

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[Interview with Volodymyr Horbulin, National Security Council Secretary and presidential adviser on issues of national security, by MOST Editor in Chief Vyacheslav Pykhoshek; place and date not given: "Vladimir Horbulin: 'I am Very Careful About Predictions....'"; questions rendered in Ukrainian, answers in Russian]

[FBIS Translated Text]

[Pykhoshek] Mr. Horbulin, as the secretary of the National Security Council and presidential adviser on issues of national security, you receive information from many sources. One of those is the Security Service, and others are the diverse analogous subdivisions subordinate to you, the Ministry of Foreign Affairs, and obviously other ministries. Are you satisfied with the quality of that information?

[Horbulin] I feel that we have taken a significant step forward this year, because when I started working, I was struck by the abundance of documents that did not have sufficient analytical processing—no conclusions at all were being drawn from them, and virtually no proposals were coming in on which we could structure subsequent work. The level of the documents has now risen drastically, and most importantly, we are reaching a degree of mastery of the material that permits us to answer the questions that life is constantly throwing at us, in prompt and quality fashion.

It was not only my own readiness that facilitated this, but also the fact that there exists a very large quantity of materials that permits us to stay in excellent fighting shape. I am grateful in this regard not only to the Security Service, but also to military counterintelligence and the other analytical centers. I would also like to say that the Institute of Strategic Studies has put together a quite pragmatic direction for its activities this year, and has started to put out interesting materials that are used in making state decisions.

[Pykhoshek] The president, the secretary of the National Security Council, the chairman of the Supreme Council, and the prime minister of Ukraine all have access to the information of those analytical structures, according to Ukrainian law. All of these individuals theoretically are to receive the same level of information. I am interested in something a little different, however. Is the prime minister of Ukraine better informed than the president today, in your personal opinion? Is the level they are informed the same?

[Horbulin] A question with a large hidden meaning, but even if you take into account the fact that Yevhen Kyryllovych Marchuk was the chairman of the Security Service at one time, I think that the president is better informed today.

[Pykhoshek] Some of the deputies in parliament are constantly raising the issue of the unconstitutional nature of the National Security Council of Ukraine, of which you are the secretary. They make reference to the fact that its creation was not stipulated by the Constitution of Ukraine, and was not ratified by the Constitutional Agreement.

In order to exhaust this subject, I would like to ask about the fifth clause of the Statute on the National Security Council [RNB], which states that decisions are made by the RNB by a simple majority of votes. That same clause says that the decisions of the Council and its Presidium are binding on the bodies of state executive authority. As far as I know, the latter rule has never been applied, the decisions of the president directly have been passed along to the executive bodies; in what situation are the decisions of the RNB binding for fulfillment?

[Horbulin] You have hit the nail on the head. I would like to talk a little about the mechanism for making decisions. The president can actually create any body to assist him in his work. Why was I proposed to head the National Security Council? It is probably not quite proper for me to answer that question; better to ask the president. But I would like to direct your attention to the first clause of the statute, where it states quite explicitly that the RNB is a recommending body. What kind of voting is this? Viewpoints far from always coincide, and if a majority votes for the draft decision that has been developed, that decision is adopted. The president signs it, and only after that does the decision of the National Security Council—the head of which is the president—become mandatory for fulfillment, as with any edict or other directive of the president.

[Pykhoshek] That is to say, there is the moment of signing, and only after that does the decision go into force?

[Horbulin] Absolutely. A session of the National Security Council cannot even be held without the president, and any decision made without the participation of the president, not signed by him, has no force.

[Pykhoshek] The fact that this procedure is unknown to the journalists and deputies is giving rise to misunderstandings.

[Horbulin] I think that all of this was done and is being done specially, because the sessions of the National Security Council are among the few to which the deputies do not go, and do not have the right to go to in principle. We have the strange practice in general of registration for participation in sessions at various levels—a deputy can go wherever he wants, as long as that "wherever he wants" coincides with the sphere of activity of his commission. I was talking about this a long time ago, when the deputies were coming to sessions of the Cabinet of Ministers and offering criticism or suggestions; one can understand this, albeit not quite, since they do not answer for what they are proposing. The prime minister, the vice premier, or the minister to which it is entrusted answer for it. It is all well and good to be an adviser. But if you give advice, you need to bear responsibility. I think that not everything in the structure of state power and the intrinsic structure of state administration here has been fully thought out yet. This is one of the weakest points in the state structure of Ukraine.

[Pykhoshek] You do not have in practice (and the State Prize of the USSR you received at one time speaks for itself) as condescending an attitude toward the deputies as toward people who are more accustomed to talking than working?

[Horbulin] It is not a matter of state prizes—in missile building, where I came from, the feeling of responsibility was a mandatory thing without which, however talented you may have been, you needed only to permit yourself excessive personal freedom and you willy-nilly would be "thrown over the side"; because of the responsibility for the lives of people who could be killed, and the enormous amounts of money spent for testing, you were indoctrinated that way. The deputies are varied, and in my opinion there really are talented deputies. I would not like to name names, but there are such people.

There is, however, a certain phenomenon: It is one thing when you are working with a deputy one on one, and quite another when they are assembled in a group, in some composition—then certain absolutely new, group traits appear. This kind of thing is completely surprising, but it is a social phenomenon, it must simply be studied. Do you want me to tell you something interesting? A deputy very often asks a question and does not listen to the answer to it. It is hard to understand this, since such behavior is not only disrespectful toward the person of whom the question was asked, but also characterizes oneself to a certain extent as well.

[Pykhoshek] Indeed, when the quantity of our deputies passes to quality, it is sometimes very hard to understand what they are talking about.

[Horbulin] But at the same time, you cannot get by without a parliament. Such a body is necessary, because its existence is one of the fundamentals for building a democratic state. There cannot be normal development without opposition, without opponents.

[Pykhoshek] You are on the Presidium of the National Security Council—as the presidential adviser for issues of national security—as are the minister of defense of Ukraine; Vasyl Durdynets, deputy prime minister for national security issues and states of emergency; Prime Minister of Ukraine Yevhen Marchuk; and Security Service Chairman Valeriy Rodchenko. Why only those people, and not, for example, the minister of foreign affairs or the minister of internal affairs of Ukraine?

[Horbulin] That is not really a question for me, but rather for the president. We are thinking about expanding the composition of the National Security Council, but that will most likely be done out of representatives of the ideological area of state policy. We have already submitted such proposals to the president, and he is considering them; I think the appropriate decisions will be made in the near future. I feel in general that the minister of culture and the minister of justice should certainly be part of the National Security Council. They came into the government recently, and perhaps that explains why they are not on the RNB today. The idea of this body is to assemble representatives of all areas of the life of the state; then mistakes in decisionmaking are eliminated.

Before the National Security Council makes a decision, whole institutes and individual specialists and advisers, a whole large circle of people, are working. They prepare an enormous pile of materials that people then rework and analyze, and submit them in the form of reference material and a draft decision for the consideration of the RNB. That does not mean that the draft necessarily becomes the decision—there has not been an instance where the material has gone through without changes. But that is not to say that, for example, the Secretariat of the National Security Council works poorly, but is rather evidence of the complexity of the problems that we are constantly encountering. And thank God that that happens, because the more discussion there is, the more opinions there are, the easier it is to avoid mistakes.

[Pykhoshek] But couldn't a situation arise where the Presidium of the National Security Council constitutes a majority that speaks against the president?

[Horbulin] It all probably depends on the issues that come up. There have not yet been instances where a majority has disagreed with a draft decision that the president supported in discussion. Such a situation will probably arise, it would be a test of democracy, and if I ever live to see that, then I would be a poor secretary of the National Security Council.

[Pykhoshek] Such a slightly dangerous possibility is inherent in principle, but in that case the rule "until the president signs a decision, the decision is not considered...." applies.

[Horbulin] Certainly. This is not a session of the Politburo, where you could act as they acted with Nikita Sergeyevich Khrushchev. The National Security Council, I emphasize once again, composes a decision, but it becomes a rule of action after it is signed by the president.

[Pykhoshek] In analyzing the transformation of the structure of executive power from President Leonid Kravchuk to President Leonid Kuchma, it is easy to see that the functions of the Administration of the President of Ukraine have changed. Its powers have increased greatly today and the administration is doing much more work, while, say, Administration Chairman Dmytro Tabachnyk is a quite different figure in a political sense than Administration Secretary Mykola Khomenko under L. Kravchuk. The Administration of the President of Ukraine is sometimes equated in a functional sense with what the Central Committee of the Communist Party of Ukraine was in its time, and the National Security

Council in turn with the Politburo. What do you have to say about that idea?

[Horbulin] If the Presidential Administration were some analogue to the party Central Committee and the National Security Council to the Politburo, I think that no discussion would be permitted in the resolution of the complex issues that we need to be occupied with today. The principle of democratic centralism was very strong in the party structures, and the principles here are quite different. It seems to me that the advantage of the Presidential Administration today is precisely that it has assembled different but very strong people, and a quite powerful intellectual base has been formed thereby. I could be mistaken whether it is 17 or 19 doctors of sciences, plus a large number of people who have defended their candidate's dissertations, who are working in the administration today. And most of these people generally prize their work not because it is particularly prestigious, but rather because this work truly represents an opportunity to work for the state. And I am glad that there are still such people. It was quite different in the Central Committee of the party in Ukraine, principles were quite different and relations were structured differently there, and the style of work was inherently different. There, if your department manager said something, he was always right, even though perhaps some deviations did occur. But the decisions.... I was not present then at sessions of the Politburo, I was at the Secretariat—the sessions were distinguished by very high discipline, the opinion of the second secretary decided virtually everything there.

[Pykhoshek] When some talk today about an influence group within the Administration of the President, that term is very often used either incorrectly or imprecisely, or what stands behind it is not explained. The facts meanwhile testify that you influence the making of a very great many decisions in the nation, and that the president entrusts the resolution of exceptionally important problems to you. You took part at the request of Leonid Kuchma in the preparation of the economic report of the president, for example, in the area of the reformation and improvement of the structures of economic management and the reform of the Cabinet of Ministers; issues that would seem to be under the purview of acting Prime Minister Yevhen Marchuk. Then also the sections of the report that talked about the prospects for the development of the military- industrial complex, which was at the time an area of the work of Minister of Defense Valeriy Shmarov, who was also the deputy prime minister at the time. You have also become a representative to the Consultative Committee of the Presidents of Ukraine and the Republic of Poland; that is, we can talk about your foreign policy activity as well. I understand that a large portion of the positions I have listed are mainly administrative, it is work that you combine with your primary work. But it looks like your influence in the Administration of the President is the greatest.

[Horbulin] In reality, even though my position today is not constitutionally defined and is present to a certain extent only in the last edition of the Constitutional Agreement, I would not like to diminish my capabilities and my role.

I would like to direct attention toward something else—there has always been some background that ascribes to the Administration of the President the presence of virtually the secrets of the Court of Madrid. Fine, there used to be favorites, and everyone knew that the king would speak in the morning. But that is not what we have! There are various readings, different ways of thinking, and finally a pluralism of opinion. And the devising of solutions is also very often not easy. There is a group of people who see a problem this way or that, for example Anatoliy Halchinskyy is the most competent on economic issues. I am occupied with the distribution of duties in the administrative system of the Cabinet of Ministers because I have sufficient experience in the management of complex systems— that remains from my past life, if I could put it thus. It is no secret that I have been occupied and today am occupied with various issues; for example, it has now been mentioned in the press that I was affiliated with the distribution of duties between the civilian minister of defense and the chief of the general staff. I also have some relation to the naming of a civilian as the minister of defense....

This all falls under the management of complex systems, and it seems to me today that we, as a nation, are in a sense still at a very low level of development. Perhaps not low, the state is simply young and does not have the necessary institutions in sufficient quantity. This is complex and painstaking work in general. The correctness of decisionmaking and, in a certain sense, the correctness of the course that the state takes, depends on what goes into the input of the system, in our case the system of power, and what ends up at the output.

Influence on decisionmaking, it seems to me, is manifested to a certain extent in the selection and placement of personnel. You understand the responsibility of each person in the event that he recommends someone for a position, and then he cannot handle his duties. That is how it used to be in principle, that if you recommended a person and he could not handle it, take his place and rectify the situation. That is how it was, at least, in the party structures, and that is what was good in the party Central Committee. There existed a list of qualified people for each position who were able, where necessary, to replace the primary person. It seems to me that this has been lost today, that this situation is a drawback of our system, but the drawback is not that we do not have the personnel at all, but rather that they have been scattered, as they say, across the field, but to all appearances this is a field where searches for the optimal approach could lead to very palpable positive results.

[Pykhoshek] The opinion exists that the president of Ukraine holds much more authority than the leaders of the countries with developed democracies today; they also say that presidential power is functionally much stronger than legislative today. Could that mean, in your opinion, that we are moving toward some variety of autocracy?

[Horbulin] I do not agree with you on three points. The president does not have greater capabilities, the more so much greater ones, compared to legislative power. One need only look at the experience of the United States or, for example, France, where presidential power is traditionally strong, to see the fallacy of the references to the countries with developed democracies.

Our country is under completely unique conditions today, and today, in a transitional stage, we perhaps really do need strong authority. A situation of a surprising absence of discipline has taken shape in the nation, and if we do not seek out a system to restore it, having in mind first and foremost executive discipline, we will perish as a state—that is absolutely clear to me, for example. Virtually every resolution was fated to remain unfulfilled not all that long ago, because the oblast or rayon leaders really could not make anyone do anything—there were simply no levers. So what the president got under the Constitutional Agreement is a minimum, but a minimum adequate to bring some order into the vertical structure of the executive. The bricks that would be laid at the foundation of autocratism are not seen in that sense—they are simply not there.

Let's get to the new Constitution. It seems to me that a great deal of what should become the foundation for the structure of a law-governed state has been concentrated in the draft. Let's wait until the draft is submitted for universal discussion, let's see how it is welcomed by the citizens of Ukraine, and then we will draw some conclusions. You know that the unclear background or the vagueness of the coloration are such that they provide an opportunity to accuse anyone of whatever you like. And it is very hard to refute such accusations—the state structure does not have clear-cut and strong coloring at this moment.

[Pykhoshek] In one of your first interviews as secretary of the National Security Council, you said that there is a certain need to coordinate better the actions of the central executive authorities with the actions of the regional elites, and made reference to the fact that certain problems exist in relations with the regions. How does that situation look today?

[Horbulin] I was actually emphasizing the absence of executive verticality. The unacceptability of that situation was obvious to me, because an excellent document could be prepared, but in order for it to work, it is essential to provide for its passage and execution from Kiev to any rayon center. I saw all of the lack of conformity of the executive structure to the requirements of the times, a situation where it was virtually impossible to have any influence on the state of affairs. I think the situation has improved since the passage of the Constitutional Agreement. It is too early to judge whether it is a lot, but it seems to me that the oblast leaders felt and recognize this; they amicably confirmed at the recent session of the Council of Regions that the influence of the central authorities had become appreciable. I do not want to say that that authority should be very strict or excessively tough toward the regional structures. We must certainly let them live and breathe today, and offer them conditions to seek out opportunities to display themselves creatively. But the central powers should be setting the framework. We are moving toward that.

[Pykhoshek] After the Constitutional Agreement, starting on 7 July of this year and ending somewhere around 26 October, the president issued a great number of edicts and directives naming the heads of state administrations at various levels. It would be absolutely strange if those people were never known in Ukraine, and they were not visible. Most of them were working under the last president, and there are former members of the party Central Committee and quite varied people in general among them. Seventeen people from the list of heads of state administrations during the times of Leonid Kravchuk were never ratified—eleven heads of the state administrations and six deputy heads. Does the current president have his own regional team in that case?

[Horbulin] It would be premature to answer that question today. I would direct your attention to what is written in the Constitutional Agreement, namely that the president in general was to designate all of the acting heads of the oblast and rayon state administrations. Cases are known, however, where that did not happen, if the situation in the oblast and the rayon was beneath any criticism. There were other resignations with time as well.

But one cannot form relations with the people occupying these or those posts today on the basis of who they are and under whom they were. Everything depends on the abilities of the specific person, and his desire to work. We are not so rich today that we can constantly keep shuffling the personnel deck, that would categorically be a mistake. I think that one of the strong aspects of President Leonid Kuchma is precisely that quite a few of the people who worked under L. Kravchuk are continuing to work today, including in the Administration of the President, to which I would like to direct particular attention. And they are working in quite worthy fashion, in my opinion. I cannot evaluate all of the regional leaders, since I do not know them all, and it would be somewhat tactless anyway. Many of them, however, really do know the state of affairs in the oblast, and know the sore spots of their region. And the more people you get acquainted with in the work process, the more you become convinced of that. Let's look at them, so to speak, not by passport but by the results of the work, and then it will be easier to get by. We are all trying to chase after some artificially conceived norms, and that is dangerous.

[Pykhoshek] As a person who worked for a long time in the party apparatus and in the military-industrial complex, you certainly know that nomenklaturas are quite diverse. The nomenklatura of the party Central Committee that was in effect in the military-industrial complex and in the central apparatus of the Communist Party of Ukraine is one thing, while the traditional nomenklatura, so to speak, for the various party committees of the agrarian regions is something quite different. We are talking in the former instance about considerable personal responsibility, and the people were not guaranteed their jobs for life, while with the representative of the rayon nomenklatura we have not only become accustomed to the fact that the party has guaranteed them unsinkability, but also even that Kiev in fact has no influence on them. Doesn't the naming of many of these people as the heads of oblast and rayon state administrations testify that the Administration of the President does not know the people in the regions well enough?

[Horbulin] I have certain principles, and one of them is that I never permit myself to touch of questions of agriculture (and most of the instances you mentioned were namely there) and, accordingly, personnel problems in agriculture. But even if the situation you have depicted corresponds to reality, there is no mortal threat to the building of the state therein. Time will allow us to make the appropriate evaluations, and if people are not able to work, I think that no past will help them to hold their positions. I am firmly convinced, I know, that the resolve of the president is sufficient on this plane.

[Pykhoshek] I have drawn one conclusion from my experience in interacting with those people—it is to a large extent all the same to them with whom they are working, who is in power. I do not think I am mistaken when I say that the rumors of their loyalty to President Leonid Kuchma are somewhat exaggerated, and that most of them, in any case, will not be supporting market reforms, although there are also those who would support such reforms. They would support anything you like, even if somebody else was elected president of Ukraine. Looking at all that, couldn't there be a certain sabotage of the decisions of the Presidential Administration from below, with these people already rushing over to a new president?

[Horbulin] I think that the situation you have just described will happen, because any ways to the past will lead to the ruin of Ukraine.

The most important thing is not to remove the current president of Ukraine—he has sufficient political will, and the ability to bring that will into being.

[Pykhoshek] I think that we have tried to find all of the acute angles in this pentagon, and I thank you, Volodymyr Pavlovych Horbulin, secretary of the National Security Council and presidential adviser on issues of national security, for your participation.

Split in Socialist Party Seen Possible

964F0750A Kiev KIEVSKIYE VEDOMOSTI in Russian 26 Dec 95 pp 1, 3

[Article by Sergey Rakhmanin, VEDOMOSTI: "Vitrenko and Marchenko Expelled from Socialist Politburo: A Purge of the Ranks, or the Precursor to a Split?"]

[FBIS Translated Text] Perhaps two of the most colorful members of the Socialist Party, People's Deputies Volodymyr Marchenko and Natalya Vitrenko, have been removed from the organization's Political Executive Committee (something like a Politburo). This was the decision of the Political Council (figuratively speaking, the Central Committee) at a meeting on 23 December. Volodymyr Marchenko, when asked by a VEDOMOSTI correspondent whether this will be followed by his and Vitrenko's leaving the SPU [Socialist Party of Ukraine], replied that this was not at issue. For the time being?

Incidentally, Natalya Mikhaylovna and Volodymyr Romanovych wrote statements concerning their voluntary departure from the leading organ. But as Petro Zolotarenko, representative of the Socialist Party, told our VEDOMOSTI correspondent, these statements were not reviewed. Petro Nikolayevych refused to inform our newspaper about what kind of formulation the opposition tandem was expelled from the political executive committee under, inasmuch as, in his words, "we have not made a decision on the publication of this information." Comrade Zolotarenko only noted that the decision is connected with questions of the party discipline of the two specific socialists.

VEDOMOSTI has written that the inseparable duo had serious claims against Oleksandr Moroz, the head of the party, and Ivan Chizh, leader of the socialist faction. We have also reported that Vitrenko and Marchenko submitted a closed letter to the chairmen of oblast party committees with an appeal to convene a special congress at which it was proposed to examine the errors of the leadership and consider how to proceed further. We will mention also that on the question of discord in the organization entrusted to him, Oleksandr Moroz replied: It is not a question of a split in the party; one can only talk about personal frictions. And he assured that all problems would be removed in the upcoming political council. I do not know what will happen regarding the problems, but Vitrenko and Marchenko have already been "removed."

It is interesting: On 23 December Moroz, Marchenko, and Vitrenko received an invitation to participate in recording a "Pyatyy Kut" New Year's program. Oleksandr Oleksandrovych refused beforehand, and two of his colleagues who gave their concurrence without waiting for a final decision were forced to miss a Political Council meeting. For which, according to available information, they were favored with a rebuff from the leader of the SPU. Generally, as reported by confidential sources, the ex-members of the political executive committee listened to a lot directed against them that was just. They were reproved for breaking party discipline, split activity, and factionalism, and almost for desertion. To the question of whether this was really the case, Natalya Vitrenko noted with a smile: "It is a pity that I did not record of the aphorisms that were uttered...." The criticized pair called on colleagues to look into the program documents and convince themselves with their own eyes how many side steps have already been taken. To which a party colleague remarked: "Only lines go straight ahead."

Both Vitrenko and Marchenko in one voice declared to our VEDOMOSTI correspondent that the head of the SPU did not give a precise answer to even one of the tough questions posed by them. What was the leader asked by his long-time internal party opponents? Well, first, Comrade Natalya and Comrade Volodymyr analyzed how the leader of the party himself, and the leader of the faction, Ivan Chizh, voted on the most fundamental questions. They compared the results—first, with the founding party document, second, with the voting on this same question by Deputy Marchenko, Deputy Vitrenko, the leader of the Communist Party, Simonenko, and the head of Rukh, Chornovil. In the opinion of the initiators of this research, an interesting answer was acquired. Inasmuch as in a number of cases Moroz and Chizh departed from the party line. And much more frequently than ideological left-wingers Marchenko and Vitrenko would like, Oleksandr Oleksandrovych pushed the very same button that Vyacheslav Maksimovych pushed.

What is more, the indefatigable pair prepared a draft resolution "On the Situation in the Leadership of the Party." And tried to get it passed at the Political Council. In the event this document did not receive majority support, the duo deemed it proper to leave the Political Executive Committee. The draft resolution stated, in particular, that the leadership of the SPU "ignored the decisions of the party concerning oppositionism with respect to authority and the policy of socioeconomic reforms it imposed." Mention was made of the decline in the role and authority of the organization, the loss of understanding between the leaders and members of local organizations, and "loss of positions in the political arena, which was also confirmed in the pre-elections to the Supreme Council." "The party is losing its future," stated the authors of the document, and they proposed declaring unsatisfactory the activity of Moroz, chairman of the Political Executive Committee; faction leader Chizh, leader of the party organization faction, Kiyashko, and also the Political Executive Committee and the socialist faction. Marchenko and Vitrenko insisted on convening a special forum of socialists in February 1996 "to clarify the strategic and tactical tasks of the party."

I will risk assuming that the composers of the draft did not believe that what they wrote would be approved. Judging by everything, they pursued two objectives—to slam the door and to trigger a reaction in the regional branches. It has to be assumed that Vitrenko and Marchenko would in no case want to consider themselves "Mensheviks." Understanding very well that the local socialist chiefs will unequivocally support Moroz, they at the same time are certainly hoping for the support of the "lower levels"—the prestige of both deputies is rather high. It is most likely that the possible steps of the "factionalists" will also depend on the force of the repercussions.

What will be the consequences of the December "flight analysis" for the party and the left-wing movement as a whole? There is practically no doubt that the leadership of the SPU will try to present what occurred as an insignificant internal conflict. Just like the question that is typical of our country—"Where do we go from here?"—which suddenly confronts the socialists also.

It was no accident that Marchenko and Vitrenko used Petro Simonenko, a "classical left-winger," during the comparative voting analysis. After the signing of the Constitutional Agreement a very plump black cat ran between Oleksandr Oleksandrovych and Petro Nikolayevych. The "Vitrenko and Marchenko affair" will aggravate the problem of mutual relations between the socialists and the communists. If one allows the variant that at a command from the center the "dissenters" will be subject to ostracism, it can be assumed that the inflexible pair will abandon the Socialist Party. And will end up, for example, in the Communist Party. Of course, it would be a nice move to create one's own party, but for the time being the disturbers of tranquility in the socialist camp cannot do this.

But at the same time, others can leave with them. And then the party will have to choose: Change leaders, change policy, or go halves: to socialists who are ideologically close to the communists and to socialists who are ideologically close to the social- democrats. When one analyzes Moroz's recent steps, one comes to the conclusion that he tried without unnecessary fanfare to move the party closer to the center, while at the same time not quarreling with satellite communists and trying not to lose the social base. It is incredible but a fact: From time to time something like this was accomplished by the skilled political craftsman San Sanych [Oleksandr Oleksandrovych]. It will be extremely difficult to do this now.

Oleksandr Moroz, talking about problems in his party, continuously insisted on the fact that there could be no question of any kind of split in it. Well then, let us avoid the word "split." Let us consider cracks. After the signing of the Constitutional Agreement, which seemed monolithic, the left-wing bloc made the first crack. The split of the agrarians is undoubtedly the second. The scandal in the "socialist family" is the third. Is it like in Lermontov? "Then we started to count the wounds, and we started to count the comrades...."

Crimea Russian Party Seeks Status Change

964F0703A Simferopol KRYMSKAYA PRAVDA in Russian 26 Dec 95 p 1

[Article by V. Tereshchenko: "Russian Party of Crimea Intending To Acquire All-Ukraine Status"]

[FBIS Translated Text] It was announced at the Third Extraordinary Congress of the Russian Party of Crimea that convened 23 December in Simferopol that the party might change its name to the Christian Orthodox Party of Rus. A final decision on this question will be made at the next party congress, scheduled to take place in six months.

According to party Chairman Sergey Shuvaynikov, a great effort is underway today to develop contacts with like-minded thinkers in various regions of Ukraine—Kharkov, Lvov, etc. In the future, the Russian Party of Crimea intends to acquire all-Ukraine status, re-registering itself appropriately with the Ministry of Justice. After all, the present Law of Ukraine on Elections envisages participation in elections only by those parties that possess state- wide status.

Crimea Poll on Public Figures' Popularity

964F0703B Simferopol KRYMSKAYA GAZETA in Russian 27 Dec 95 p 1

[Article by Yelena Gornaya: "Who Has Made It to the Top 10?"]

[FBIS Translated Text] The Crimean Independent Center for Political Studies conducted a second survey of prominent Crimean journalists and political scientists through the month of December. The survey focused on who was the most influential Crimean politician in 1995.

Some 108 respondents were asked to examine a list of 64 names of well-known Crimean political, state, and social figures, and select the 10 who, in their opinion, exerted the greatest influence this year on the sociopolitical environment in the Autonomous Republic of Crimea.

As was the case with respect to the poll conducted for the first half of the year, the largest number of respondent votes (84) were cast for Autonomous Republic of Crimea Prime Minister Anatoliy Franchuk. Also gaining a position in the top 10 were Refat Chubarov, Vladimir Shevyev, Mustafa Dzhemilev, Leonid Grach, Anushavan Danelyan, Arkadiy Demidenko, and Sergey Tsekov, though the standing of the latter dropped markedly as compared with results of the first half year. On the other hand, the standing of Crimean Supreme Council Chairman Yevgeniy Suprunyuk increased significantly. He too appeared in the top 10 ranking of most influential politicians, having been selected by 65 respondents.

The survey identified several other names which, though not included in the above listing, are worthy of mention in the political context, in the journalists' opinion. These include journalist Tatyana Korobova and former Crimean Supreme Council Chairman Nikolay Bagrov.

Another interesting survey result shows that 13th and 14th place in the standings are shared by Sergey Voronkov, Simferopol City Council deputy, and Vitaliy Kirichenko, former head of the Main Directorate of the Ukrainian Ministry of Internal Affairs in Crimea, who received an equal number of votes.

Former Crimean president Yuriy Meshkov wound up somewhere in the thirties, having been selected by just 12 respondents. Complete results of the survey "The 10 Most Influential Politicians of Crimea in 1995" will be published at a later date.

Extremist Party Outlines Objectives

964F0753A Moscow NEZAVISIMAYA GAZETA in Russian 28 Dec 95 p 3

[Article by POST-POSTUP correspondent Yuriy Korolyuk, special to NEZAVISIMAYA GAZETA, under the "Ukraine" rubric: "A Socialist Nationalist Party Has Been Registered. An Organization of a Fascist Bent Has Appeared in the Political Arena"]

[FBIS Translated Text] "We wish to build a state that will dominate in the world; we stand for a new order." It was thus that Yaroslav Andrushkiv, chairman of the Socialist Nationalist Party of Ukraine, began his speech during a celebratory meeting devoted to the official registration by the authorities of the party that he heads.

Although the party has in fact existed for four years already, the decision on its registration at the Justice Ministry of Ukraine was made only at the end of 1995. For all that time, the party, according to its members, existed underground. "Why did we choose such a name for our organization?" continued Andrushkiv. "This question is answered by the works of the genius of the Ukrainian nationalist movement, Yaroslav Stetsko, who believed that the party should bring together two principles: the national and the social. For our party, both the struggle for national ideas and the solution of social problems are equally important. The Socialist Nationalist Party of Ukraine [SNPU] sets itself the challenge of getting all the Ukrainian regions to come along with us. We want to convert (in the religious sense of the word) to the national idea an enormous number of Ukrainians who have not yet awoken...."

Further along, Andrushkiv devoted especial attention to "ethnoeconomics," the main postulate of which is this: Whatever the quality of a people, such is their economy. "All the world is in poverty, with the exception of the developed countries, because such is the ethnos. And that is why close ties with Russia are frightening, in that they bring non-European standards of behavior." At the celebratory meeting, democracy also came in for a drubbing: "We criticize democracy for the fact that it cultivates egoistic values. Human rights should not have priority over the rights of a people."

But what substitute for democratic values do the socialist nationalists propose? "We should foster in ourselves patriotism on the level of emotional experiences, when at the sound of Ukraine's anthem, a person will be ready for anything...."

After SNPU Chairman Yaroslav Andrushkiv finished his speech, the floor went to the commissioner on questions of SNPU ideology (that is what his post is officially named), the "spiritual father" and "guide" Yuriy Krivoruchko. "The European white race is moving toward its decline, toward decay and degeneration.... But who can save it? Only Ukraine can withstand the United States, Germany, France, and Great Britain. Ukraine alone is humanity's hope. We have the largest territory in Europe; we have the ideal climate to 'engender' a new civilization. Ukrainian ballistic missiles and Ukrainian tanks are the best in the world. We need to get a feeling of Ukraine's greatness. Belief in the exceptionalness and grandeur of Ukraine is the guarantor that has 'held' us and that will continue to 'hold' us. Ukraine has a special mission in the world. The word of truth, which humankind is awaiting, must issue from Ukraine. Patriotism must become the normal function and way of life of each person. Ukrainians are the hope of humankind...." A few days after the conclusion of the official celebrations on the occasion of the SNPU's registration, a NEZAVISIMAYA GAZETA correspondent was given an interview by Yuriy Krivoruchko. To the question on the source of the organization and its goals, he said, among other things: "We believe ourselves to be followers of the Ukrainian national patriotic movement, which existed in Ukraine earlier as well, for a period of centuries, and, in addition, we are attempting to become a modern political organization, that is, not to live on memories only, but to create something of our own. Our party sets itself the task not only of getting political power (that is completely normal today for any party), but at the same time, after the gaining of power, to use it as an instrument for the building of a new society.

"Any political organization in its motives is divided into corporative and ideological. If it is corporative, then it will use the political power it has won for the satisfaction of exclusively personal aims. But if the organization is built according to an ideological principle, then political power is for such an organization only an instrument for the creation of a new society. It is precisely with such an aim that we began our work. As for the building of a new society, we proceed from the conception of Oswald Spengler, who believed that the development of humankind is not linear in character. Society is rather a multiplicity of separate cultures, organisms, each of which has definite phases: conception, development, culmination, decline, degeneration, and disintegration. Ukraine is only one of the elements of that condition in which European civilization finds itself. We are seeing the significant degradation of humankind. Today the 'hottest' music—rap, techno—is obviously not of European origin. Europe does not now produce anything of its own; Europe is in a state of putrefaction, and I think that we will soon see its burial."

Many people are afraid of the SNPU, some laugh at its rhetoric, and some disregard it altogether. But the Socialist Nationalist Party of Ukraine should not be underestimated. Today this organization has militarized units of young people and iron internal discipline without any hint of "rotten democratism." Can it be that after socialism "with a human face," nationalism with a barracks- like face awaits Ukraine?

Shcherban May Seek Liberal Party Post

964F0728A Donetsk VECHERNIY DONETSK in Russian 29 Dec 95 p 1

["Appeal of Vladimir Shcherban, Chairman of the Oblast Council of People's Deputies and Chairman of the Oblast State Administration, to Constituents of Donetsk Oblast"]

[FBIS Translated Text] Dear Fellow Countrymen!

Having almost 18 months ago cast your votes at the elections for chairman of the Donetsk Oblast Council of People's Deputies, you entrusted to me, as leader of the oblast, not only tremendous responsibility but also the right to confer with you. I would like today to avail myself of this right, turning to you for advice and support on a very important, very complex, issue.

It has been learned from the news media that a number of oblast organizations of the Liberal Party of Ukraine (Donetsk, Kharkov, Zhitomir, Cherkassk, and Lvov, the Crimean regional, and others), having nominated me, are asking that I consent to be president of this party.

Who will be the leader of the LPU [Liberal Party of Ukraine] will be decided by a congress of the Liberal Party of Ukraine, which will be held 26 January 1996 in Kiev. But I shall have the right to accept such an offer or otherwise only after I have learned your opinion on this matter, esteemed fellow countrymen.

I would like to publicly set forth in general outline my position. I took part in the elections as a nonparty candidate. Although I made no secret of the fact that I am a supporter of the social-liberal course in the economy and policy. Just over 15 months have elapsed. Step by step we in Donetsk Oblast have been endeavoring to pursue just such a course—reformist. We have in this time had sufficient opportunities to satisfy ourselves that we cannot head into the future facing backward. That the region has the forces and enormous intellectual and personnel potential, not hitherto claimed, for standing on its own feet and moving forward. And what is most important is that we have satisfied ourselves that without reform of the economy of the Donbass, reform of the entire economy of Ukraine is impossible. After all, more than 5 million persons (over 10 percent of the country's population) live in our oblast. The proportion of the region's industrial production constitutes one-fifth of the state's total production.

It is our profound belief that the reforms must not be an end in themselves. They are needed first and foremost by our people, who have for many years had to live under the conditions of bare survival. People, with their human aspirations, requirements, and hopes and right to working and living conditions worthy of man—this is the ultimate, this is the main goal of the reforms.

The first positive results of the wide-ranging transformations begun in our region have already emerged. We have for the first time in recent years increased the amounts of agricultural production, restored the manageability of the agro-industrial complex, and attracted investments for the development of the countryside. Even in so adverse a year for weather conditions as the present one we have managed to cultivate volumes of sunflower, corn, and a number of other crops which Donetsk Oblast had only 20 years ago. And that with good weather, as they say. We obtained in our industrial region a grain yield higher than in the traditionally agricultural oblasts.

The first shoots of stabilization have appeared in the industrial branches also. The decline in industrial production in the region is markedly lower than in Ukraine as a whole. And we have succeeded in the iron and steel complex of the oblast and certain other branches in not only halting the decline in production but in increasing its volume also.

You will remember, esteemed fellow countrymen, how for six months we defended the program of a structural reorganization of the coal industry which we had proposed. This branch is truly the base both for the Donbass and for all of Ukraine. Nonetheless, it has still not as yet become a part of the reforms and is like a heavy stone pulling down to the bottom the entire national economy, not developing itself and preventing others developing. With the support of the majority of the mineworker outfits, the miners' trade unions, and the managers of the coal enterprises we sought understanding on this issue both in the government and with the president of Ukraine. We tried to show that we can not only cater for our state's need for "black gold" but can ourselves survive with such resources beneath our feet. That we had no intention of continuing to slide back into the Stone Age on the frontier of the third millennium. I can now tell you with all due responsibility that the program of reform of the coal industry drawn up by the Donetsk Oblast State Administration is beginning to work. After all, coal means not only the well-being of the miners' families. It means also payments to the treasury and to the social funds and the wages of teachers and those employed in health care and culture. It means both pensions and funds for the financing of various social programs for the development of our cities and villages.

You know, esteemed constituents, that our oblast has the largest number of retirees—over 1.6 million persons. Nonetheless, it is our oblast that has today practically no interruptions in the payment of pensions. You understand, of course, how difficult it is to do this with our "truncated" budget.

In my view, it is very important that we managed to organize the vertical line of government in the cities and rayons. Without this it would be altogether impossible to set about bringing order to bear locally. For the first time in Ukraine we concluded socioeconomic contracts with the enterprise managers. Why was this needed? In order to overcome more rapidly and decisively the slump in production and to move forward. In order that both in the big cities and in the most remote rayon centers, in the outlying areas, and in the townships local socioeconomic problems might be tackled more actively and more objectively with the aid of the enterprises.

Of course, none of this is yet enough. It is still too early to be talking about serious, tangible changes for the better. There are far more unsolved questions. But, as you can see, we are not standing still. We can and will resolve them. And we have no intention of pulling over onto the shoulder.

But many questions of our development are within the jurisdiction of the top legislative and executive authorities. They frequently concern the political, economic, and departmental interests of particular structures with no interest in reforms locally. And there has to be a strengthening of political influence both in the center and in the regions. There has to be reliance on the healthy political forces of our entire society.

There are such forces in Ukraine. Just like us, they have no desire to be, cannot be, detached observers. Just like us, they are endeavoring in practice to take the path that was taken before us by the whole civilized world community. Is it not paradoxical that, having such a wealthy country, we are still so poor a people?

My dear fellow countrymen! I am, as you know, a native of the Donbass. I grew up in our mining region, I went to school and began my working life here and I was elected a people's deputy of Ukraine here. As head of the oblast State Administration responsible for the fate of millions of people and as a citizen, I am now aware of the particular need to determine my personal political choice with regard to your interests, your opinion, and your mandate.

Only a policy of balanced centrism can, in my view, enlist the entire active population in progressive processes and strive to find a common language and common positions with both "left" and "right." A policy of consolidation, not division. A policy of compromise, not animosity. The realization of such a policy could, with the corresponding course adjustment, be assumed by the Liberal Party of Ukraine, which was born four years ago on our Donbass land—a party of reforms and man's social protection, which would unite all constructive, sober-minded forces of our society.

I ask you, my esteemed fellow countrymen, to express your opinion on so important a question: Do you under the current conditions consider it advisable for me to run for the position of president of the Liberal Party of Ukraine, which is increasingly actively advocating social harmony and civil peace, the right to work normally and to obtain decent compensation for one's labor, freedom of development of the personality and freedom of choice of each person in support of the overall state policy, socially oriented market reforms, and the creation of a strong, free law-based state of Ukraine and its strong regions?

It is not a question of my leaving the position of leader of Donetsk Oblast even in the event of my being elected leader of the Liberal Party. I am required and I shall do everything to fulfill my campaign promises to all my constituents, regardless of their political beliefs. But I am firmly certain, I am convinced, that with your support and with the support of such an all-Ukraine political organization we can together revive not only our native mining region but our whole country also. We will cope. We cannot fail to cope. Because this is our land. Our home. Our Ukraine. And we and our children and grandchildren will live in our common revived home.

It is very important that we all make the right political choice. It is very important that we not err. Not blush before posterity for missed opportunities. For the history that are we all, my dear fellow countrymen, making even today.

Chornovil Assesses Leadership Performance

964F0753B Moscow NEZAVISIMAYA GAZETA in Russian 29 Dec 95 p 1

[Article by Vyacheslav Chornovil, chairman of People's Rukh and deputy to the Supreme Council of Ukraine, under the "Leader" heading: "There Was More of the Bad This Year. But Optimists Do Not Lose Hope"]

[FBIS Translated Text] If one is to speak of the good, there was not very much of it, but there was nonetheless some. First and foremost, it turned out to be possible to preserve peace in society and to avoid social explosions and disturbances, which some people both "at the top" and "at the bottom" had predicted. We were able to sign the Constitutional Agreement, which at least temporarily kept the confrontation between the president and the Supreme Council from worsening. As for the economic reforms, here one cannot yet speak about any significant progress, but still, at least some sort of steps have been made. They can be explained by the fact that we have taken enough lumps and, I hope, we will not repeat the gross errors that we permitted before.

There have been several achievements in international relations as well. Europe and America are demonstrating more interest toward Ukraine, possibly because they have become uneasy at the situation in Russia and they have realized Ukraine's geopolitical significance. This has called forth help; more political, it is true. The understanding of Ukraine's significance was confirmed by the acceptance of our state into the Council of Europe.

Unfortunately, we still do not have real power today—neither legislative nor executive. Because of the "antiparty" electoral law, we have an unstructured Supreme Council. Because of petty politicization, which the left-wing forces introduce to any issue under consideration, parliament carries out only 15-20 percent of what was planned. Does that impede the normal work of the legislative body? Possibly. But what kind of "normal work" can we talk about, if there is neither a formed majority nor a minority in the Supreme Council? That is why our parliament is not very productive, and its activity frequently puts a brake on the reform process.

On the executive branch.... We have already given the president the vertical structure that he deemed necessary, but he cannot seem to take advantage of it. The government was formed spontaneously and is not a unified team. There remains the situation between the president and the prime minister, which has not been cleared up. Thus far, there is no tension in their relations, but it is not for no good reason that such is being prophesied.... Work on the Constitution has been dragged out. Today the draft Basic Law stipulates patent preferences for the executive branch of power. This could hold up its approval or altogether lead to a nondemocratic means of adopting the Constitution.

The most negative event of this year, in my view, was the authorities' 18 July demonstration of anti-Ukrainianism on the St. Sofia Square. Indeed, in terms of both national makeup and language, today's government is less Ukrainian than was the case in the Ukrainian Soviet Socialist Republic.

Thus, if we weigh the "positive" and "negative" of the receding year, the latter, unfortunately, will come out ahead. But I am an optimist, and I hope that this will be the last hard winter. And even if upward movement does not begin, I am sure that at least the fall will be halted.

Economic Issues

*Treasury Functions Explained

964F0718A Kiev PRAVDA UKRAINY in Russian 22 Dec 95 p 1

[Interview with Viktor Petrovich Tentyuk, deputy minister of finance and chief of the main administration of the state treasury, by Alla Nosova; place and date not given: "The Way to the Market: Speaking with the Country's Chief Treasurer"]

[FBIS Translated Text] An interdepartmental working group to develop the mechanism of a functioning state treasury system was establish a month ago on instructions of the Cabinet of Ministers. We submitted a request to Viktor Petrovich Tentyuk, deputy minister of finance and chief of the main administration of the state treasury, to talk about the work of this entirely new department in our state's financial system.

[Nosova] Viktor Petrovich, why, as a matter of fact, do we need a treasury?

[Tentyuk] The state treasury should become the agency of the state executive authority that will resolve an entire complex of tasks associated with implementation of the state budget of Ukraine under conditions of economic transition to market relations. The unity of the cash fund of the state budget, with the subsequent transition from the practice of implementing it according to the departmental principle to a territorial principle through territorial treasury agencies, will form the basis of the treasury's activity. At the same time, the accounts of state treasury credit managers will be conducted by the appropriate treasuries, but cash operations will remain with the banks. Treasury agencies will also have to assume the functions of splitting up the sum of state income and collections between the different budgets, and also conduct mutual settlements with taxpayers.

Implementation of the principle of a single state budget account in conjunction with a centralized treasury telecommunications system will make it possible in the future to obtain exhaustive information on the daily status of state finances and ensure the possibility of flexible maneuvering with state monetary resources.

[Nosova] What other functions will the treasury carry out?

[Tentyuk] It is entrusted with the following functions: managing the cash resources of the state budget, including foreign currency, and also the resources of off-budget funds, financing the expenses of the state budget, conducting an inventory of cash implementation of the budget, and also managing state internal and external debts.

[Nosova] Do the banks perform some of these functions now?

[Tentyuk] Absolutely correct. Besides the banks, branch ministries now perform some of our functions and also the administration of branch financing of the Ministry of Finance.

[Nosova] What is the structure of the state treasury of Ukraine?

[Tentyuk] Organizationally our structure will consist of a main administration and territorial agencies down to rayon level. The importance of this work on the establishment of a treasury is also indicated by the fact that questions of the interdepartmental working group regarding the creation of functioning treasury mechanisms, computerization, and the preparation of individual changes in legislation are being directed by First Deputy Premier P. Lazarenko.

The establishment of the treasury is an important step toward new reference points for state financial policy.

Official on Dnipropetrovsk Privatization

964F0748A Kiev GOLOS UKRAINY in Russian 28 Dec 95 p 6

[Interview with Yuriy Kovalenko, chief of the Dnipropetrovsk Oblast regional branch of the State Property Fund, by Nikolay Nechiporenko in Dnipropetrovsk; date not given: "Yuriy Kovalenko: 'We Will Do What Real Conditions Permit Us To Do'"]

[FBIS Translated Text] The actual results of privatization since the beginning of the current year are far below the goal. What stands in the way of giving the process sufficient momentum at the local level? Yuriy Kovalenko, chief of the Dnipropetrovsk Oblast regional branch of the State Property Fund, tells us.

"Over January-November of 1995," says Yuriy Ivanovich, "1,184 facilities, including 951 small businesses, were privatized in the Dnipropetrovsk region. Because of the Supreme Council's moratorium, real work began only in the second half of the year. Thus, one and a half times more enterprises were privatized over four months than over the period 1992-1994. Among entities undergoing privatization are such giants as the Ordzhonikidze and Marganets mining and enrichment combines [GOK], the AP [joint-stock enterprise] Imeni Petrovskiy Metallurgical Plant in Dnipropetrovsk, and the Bagleyskiy coke-and-chemical plant in Dniprodzerzhinsk. Transformation of the form of ownership has gotten actively underway in the agro-industrial complex. The process of creating publicly held joint- stock companies is gaining momentum."

[Nechiporenko] That is, the process is indeed truly underway in Dnipropetrovsk Oblast?

[Kovalenko] It would be no exaggeration to say that privatization here is becoming increasingly more all-out and intense; it is becoming irreversible. As to the pace and quality of implementing privatization goals for 1995, it is too early to speak of success. Only 60 percent of the target has been reached. In a number of cities, privatization of municipal property has stalled. It took us a great effort to launch the privatization of incomplete construction projects. Considerably less revenue from privatization is coming into local budgets than expected.

[Nechiporenko] We have heard more than once the opinion that all obstacles on the way of privatization have been removed, and we should look for the cause of failure first of all in shortcomings in privatization agencies' work...

[Kovalenko] We do not refuse responsibility for shortcomings. I should emphasize, however, that it is simply impossible to overcome at the regional level the existing complex of subjective and objective factors holding back privatization. First of all, the deep socioeconomic crisis Ukraine is living through. Second, persistent attempts on the part of certain political forces to roll back economic reforms. As a result, state policy in the area of privatization changes all the time, and lacks consistency and a steady approach. This shows most visibly in the lack of a clear and progressive legislative base for privatization.

Privatization agencies operate in the legal field set for them by lawmakers. Today this is not a field equipped for civilized play by certain rules but rather an obstacle course, or even a mine field covered with fog. Judge for yourself: The privatization program for 1995 was never adopted. By the way, there was no such program for 1993 either, so the disease is becoming chronic. That is why we use as a program and guidance the president of Ukraine's edicts on this subject.

Unfortunately, the lawmakers have not adopted a package of changes and additions that could remove the contradictions and differing interpretations revealed by practical application. For instance, laws on privatization of large enterprises and small business contain provisions that are in conflict with a number of presidential edicts. At the same time, we are being constantly jolted by numerous amendments that do not improve normative-legal acts and only confuse the already difficult interpretation, and hence, implementation.

[Nechiporenko] I see. But this is all in general terms. What happens when you get to the level of concrete entities?

[Kovalenko] The common factor for all types of privatization is that enterprises do not have much money. This makes it impossible to conduct costly audits and pay for other privatization-related expenses. Practice shows that mandatory audits are not necessary, especially at agro-industrial enterprises, and can easily be skipped without any harm to participants in the privatization process. Another thing that seriously holds things back is that officials are not really held accountable for not fulfilling privatization goals; there are attempts to avoid privatization, especially through competitive bidding, which may place enterprise in the hands of new owners. But privatization agencies lack real levers of influencing the situation.

There are also specific problems characteristic of each type of privatization. When large enterprises undergo privatization, enterprise employees can buy, as a rule, up to 15 percent of its stock. In this connection, demands are made and various excuses are found to stretch out the deadline for putting together privatization documentation. Such a situation is typical of construction complex enterprises, machine-building plants, and transportation organizations. Additional inconveniences stem from the way the list of facilities subject to privatization was compiled. For instance, the Dnipropetrovsk territorial motor transport association is comprised of 37 motor transport enterprises. The Supreme Council designated seven of them as not subject to privatization. Of the remaining 30, 22 are included on the list subject to mandatory privatization. What criteria did the lawmakers use in this instance?

We were left on our own to deal with the problem of privatizing unfinished construction projects. It must be solved in a comprehensive way, with the participation of all interested ministries and agencies, along two lines. First: It is expedient to include production facilities in a state of unfinished construction in the charter capital of enterprises undergoing privatization and to privatize them as a single property complex. Perhaps some facilities, originally intended for expansion of production or maintenance but no longer needed and therefore classified as unpromising, could be appraised at reduced value. Second: With respect to facilities in a state of unfinished construction—both production and nonproduction—that are classified as unpromising, it is expedient to privatize them as individual entities in keeping with the legislation on privatization of unfinished construction projects.

We are paying particular attention to privatization in the agro- industrial complex. We are lobbying the bodies of executive authority to give agricultural producers a break with respect to paying state duties. There are many points in the legislation on privatization in the agro-industrial complex that need fine-tuning, though. The problem of denationalization of capital-intensive entities that cannot be transformed into KSP's [collective agricultural enterprises] has not been resolved. There is no clear definition of what constitutes social and family support facilities in the countryside. And there is no methodology for their transfer to communal ownership on the books of local executive authorities.

All the aforementioned problems slow down the privatization process. The progress of small business privatization could be compared with, for instance, well digging. The upper layer can be removed relatively easily and quickly, but the deeper you dig, the more difficult the progress. The most profitable and promising enterprises in trade, public catering, and consumer services have been leased out for several years now, so they easily buy out state property with the income they earn, becoming full owners. Practically all of them have been privatized and by the end of the year about 70-80 percent of the goal in small business privatization will be reached. Enterprises that currently are in the process of privatization are, as a rule, unprofitable, unattractive, located on city outskirts, with worn-out equipment. Besides, many of them are being privatized without the physical space they occupy, because the building owners do not agree to it. To a certain extent, one can understand them—lease payments enable them to maintain the housing stock. For us, however, this creates a dead-end situation. In keeping with the president's edict, the prevailing method of privatization is to be a competitive bid, but for such facilities there are no buyers either through auctions or commercial bids. Neither are the management and employees of such enterprises interested in buying them out without the physical space.

Managers of large enterprises are in no hurry to part with the property on their books. More than 100 small businesses should be spun off from the workers' supply and trade departments of the PO [industrial association] Pavlogradugol, the Ordzhonikidze GOK, the OAO [consolidated joint-stock company] Dneproazot, the Dniprovsk Metallurgical Combine, and others. This is not happening, however.

In this situation we literally have to fight an uphill battle to fulfill rather grand privatization goals. We do what is possible in the actual conditions.

Sometimes we hear from the parliament podium that "privatization agencies operate autonomously, separately from the councils." I cannot speak for other oblasts, but we maintain close contact with Supreme Council deputies from Dnipropetrovsk. They show keen interest in the progress of privatization and listen to our proposals on improving legislation.

[Nechiporenko] Privatization affects the interests of many people because it involves changing the form of ownership. What is your appraisal of the state of the social environment in which the reforms are taking place?

[Kovalenko] To be honest, I cannot understand why we are afraid to call things by their proper names. Redistribution of property assumes serious competition, because people's fundamental interests are affected. The task is to keep this process within civilized, legal boundaries.

The current level of income of the bulk of the population does not permit these people to act as more or less serious investors. And so people perceive what is happening as something happening contrary to their will. Not understanding the substance of privatization, they see their role as limited to profitably selling their property certificate, or they do not want to participate at all. It is not accidental that only 50 percent of oblast residents have exercised their right to receive such a certificate, and far from all those who did get them have actually invested them. For those who did acquire property, however, the main motive is to earn dividends. They do not want to assume the function of managing the property, let alone the responsibility for the state of affairs at the privatized enterprise. The series of scandals with trust management societies and active agitation by left-wing political forces also contribute to creating an antiprivatization mood in public opinion.

[Nechiporenko] It seems to me that only positive results of privatized enterprises' activities could provide the main argument in favor of privatization. What is the situation in this respect?

[Kovalenko] Undoubtedly, this is the strongest argument. We see our role as one of carrying out post-privatization support with the maximum effectiveness, so that enterprises may adapt as quickly as possible to market realities. The first steps have been taken in the direction of creating a comprehensive system of post-privatization support. I mean information and methodological support, legal consultations, personnel training, monitoring compliance with the terms of the sale contract, financial support, and attracting foreign investors. On these matters we work in close interaction with such nongovernment organizations as the oblast association of managers of industrial, construction, transportation, and communications enterprises, the oblast assembly of entrepreneurs, the territorial branch of the Auditors Union, the Dnipropetrovsk Banking Union association, and others. We have put together a database of privatized enterprises, evaluated their readiness for working with foreign investors, and the need for preferential domestic loans. At our initiative, the State Property Fund of Ukraine this year has made short-term preferential loans available to some enterprises.

We have set up a system of monitoring how privatized enterprises fulfill the obligations they undertake. Each month, on a custom schedule, specialists from the regional branch and representations meet with heads of privatized enterprises, check on how they are fulfilling their obligations, study their experience, and listen to suggestions. They particularly ensure that the rights of members of the labor collective—minority shareholders—are not encroached upon.

Beginning in the third quarter of this year, the State Property Fund of Ukraine and the Ukrainian Ministry of Statistics introduced statistical reporting using Form No. 2—Privatization. This will finally enable us to see the dynamics of economic indicators and draw some initial conclusions. Sample studies support the natural logic. Wherever the manager and his team are knowledgeable and doing a thorough job, there are positive results. For instance, things improved after privatization at such enterprises as the Dnipropetrovsk oil extraction and hardware plants, ATP-11263, Ukrelektrochermet, and a number of other rather large enterprises in their sectors.

[Nechiporenko] Winter has exacerbated the problem of financing the social sphere from local budgets. To what extent do the funds generated by privatization supplement budget revenue?

[Kovalenko] As I mentioned, we are seriously concerned by the fact that the initial target of revenue from privatization is considerably below the actual inflow [sentence as published]. Current legislation grants labor collectives considerable preferences and advantages in buying out state property, and employees of 26 sovkhozes received more than 3 trillion karbovantsy [K] worth of property altogether free of charge.

As to small business privatization, 80 percent of revenue from which will go into local budgets, almost half of the facilities' price is paid not with "live" money but with privatization certificates. Because of the unresolved problem of privatizing commercial space, only the equipment, which is relatively inexpensive, gets bought, while the space either is not bought or a cheaper right is purchased. For instance, the total value of the property complex of Ocean—a leased retail trade and public catering enterprise in Dnipropetrovsk—is K60.7 billion. Of the K1.4 billion worth of property, 48 percent was bought with certificates, and the space is being leased through a right-to-use arrangement that costs about K2 billion. Thus, this facility alone left the budget shortchanged by more than K58 billion this year.

On our side, we try to do everything possible to stimulate the flow of funds into the local budgets. The number of facilities sold through bidding—the method that produces the greatest revenue— continues to increase. There is growing cooperation with the Dniester Regional Commodity Exchange, which conducts open trading efficiently and skillfully. In October alone, in the course of eight auctions 26 facilities were sold at a price 2.3 times higher than the initial asking price. But I want to emphasize once again that we are working within the bounds set for us with respect to terms and quantity of privatization entities, preferences in payments for facilities, and so on.

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